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**BUILDING AND CULTIVATING BUSINESS TO GOVERNMENT
GUANXI IN CHINA AND ITS POTENTIAL CHALLENGES FROM
WESTERN FIRM'S PERSPECTIVE**

A case study of a Finnish Firm

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ABSTRACT

China's increased assertion and its huge potential market demands more attention to be given to the unique aspects of conducting business in China. One of the unique aspects which has been significantly concerned is the practice of guanxi. The main purpose of the present study is to explore how to build and cultivate business to government (B2G) guanxi in China (PRC) and explore its potential challenges from western firm's perspective. In order to achieve the main purpose of the study, three objectives are discussed. The first objective is to analyze the phenomenon of guanxi in order to increase basic understanding of guanxi. The Second objective is to explore the building stages and the main cultivating strategies of B2G guanxi in China. The last objective is to empirically explore how a Finnish firm has tried to develop its B2G guanxi in China and explore the potential challenges. Transaction cost theory, social capital, and in-group identification are the theoretical approach. The present study follows a deductive research approach and qualitative research method. The data is mainly collected from two face-to-face interviews and one interview guided questionnaire. In addition, annual report of the case company is used as another source of evidence.

The main findings are the following: in China, B2G guanxi is built through four consecutive stages: targeting, scouting, signaling, and packaging. Targeting refers to identify the officials with whom the western firm wants to build its B2G guanxi. Scouting has to do either by group identification or altercasting so as to close the gap between western firm and identified officials. At Signaling stage, western B2G guanxi seekers should deliver appropriate signals to the target officials in the context of a broader social event. At packaging stage, westerners should carefully hide their instrumental objectives unless their B2G gaunxi is further improved. Practicing social interactions, holding informal discussions, gift-giving, and building trust are the main cultivating strategies to improve B2G guanxi. Lack of Chinese language proficiency, different communication styles, and unclearness of communicating and having close B2G guanxi with the officials are the main potential challenges to western firms.

KEYWORDS: Guanxi, business to government guanxi, building stages, cultivating strategies, challenges.

1. INTRODUCTION

1.1. Background of the study

China (PRC) opened its doors to foreign direct investment (FDI) at the end of the 1970s (Luo 1997: 52; Zhang & Zhang 2006: 375). In the third quarter of 1996, China surpassed Japan as the country with the largest U.S. trade imbalance (Standifird & Marshall 2000: 21). On July 1, 1997, China regained control over Hong Kong, which is the eighth largest stock exchange market and the world's most profitable exchange market (Barnathan 1996). On Nov 11, 2001, after a lengthy negotiation process China became a member of WTO (WTO's homepage). On Aug 8, 2008, China successfully held one of the most successful Summer Olympic Games in Beijing. China has the fastest GDP real growth rate (9%, 2008 est.) and largest population (1, 34 billion, 2009 est.) in the world (CIA-The World Factbook). China's increased assertion in the world market and its huge potential market demands more attention to be given to the unique aspects of conducting business in China (Luo 1997: 52). One of the unique aspects which has been concerned over the past decades by academicians and practitioners is the practice of guanxi.

Guanxi is one of the key factors leading to business success in China (Su, Sirgy & Littlefield 2003: 303). However, it is worth noting that guanxi is a necessary but insufficient condition for success in China (Vanhonacker 2004: 49). Thus, in addition to deciding the proper marketing strategies, foreign businessmen also need to have an in-depth understanding of the unique character and practice of guanxi in order to achieve their business objectives in China. Especially, understanding of establishing and cultivating guanxi is crucial, and it cannot be ignored in company's initial stages such as introduction, negotiation, and set up of the operation (Fan 2002b: 558).

As one of the unique aspects in China, guanxi, has been studied in many fields such as anthropology, psychology, and business administration (Zhang & Zhang 2006: 376). In the past few years, there is a growing number of publications on guanxi from business perspectives. The research on guanxi in the business field has focused on two main themes: 1) the business implications and benefits of guanxi and 2) the possible links between guanxi and some western concepts such as competitive advantage, networking, and relationship marketing (Simmons & Munch 1996; Arias 1998; Lovett, Simmons & Kali 1999).

However, two issues relating to guanxi have not been studied richly and deeply. Firstly, there are limited studies exploring how to build and cultivate guanxi in the Chinese context. Mentionable academicians such as Vanhonacker (2004) and Yau, Lee, Chow, Sin and Tse (2000) have contributed their efforts into these areas, but their research was mainly theoretical and conceptual based. Although other researchers such as Pearce and Robinson (2000) and Yeung and Tung (1996) have empirically investigated these topics, their empirical research was not conducted in accordance with any theoretical framework. Secondly, many academicians treated guanxi as a single phenomenon, thus, different types of guanxi was rarely studied separately. Especially the dominant guanxi, business to government guanxi (B2G), has not been studied distinctively. Thus, the present study is worth conducting so as to close the research gaps relating to building and cultivating guanxi, especially B2G guanxi, in China.

1.2. Research purpose, objectives and delimitations

Building and cultivating relationships are greatly different in western countries and China. “Many western businessmen are often in danger of overemphasizing the gift-giving and wining-and-dining components of a guanxi relationship, thereby coming dangerously close to crass bribery or to being perceived as ‘meat and wine friends’, which is a Chinese metaphor for mistrust” (Luo & Chen 1996: 298-299).

Using “bribery” and being “meat and wine friends” should be avoided in building and cultivating guanxi in China due to following reasons. Firstly, “bribery” is not equivalent to guanxi. The central difference is that guanxi means relationship building and “bribery” is simply an illegal action (Lovett et al. 1999: 234). Secondly, it is true that Chinese bureaucrats are usually not well-paid and many of them want to use their power to help individuals or organizations in order to get monetary gift, however, it is worth noting that improper gift-giving often leads to corruption, which is disparaged by the society. Thirdly, bribe may be enough for an one-off basis relationship, but it certainly cannot buy a true, healthy, and long-lasting guanxi (Tsang 1998: 66). Fourthly, some level of affection is a part of guanxi, but not of bribery (Lovett et al. 1999: 234). Last but not the least, western managers often spend limited time to build and develop relationship with their partners (Wong, Leung, Hung & Ngai 2007: 875), but in contrast, due to great cultural influences Chinese people prefer long-term personalized and mutual cooperation as the basis for most of their business dealings (Yau et al. 2000: 17; Wong et al. 2007: 876), “wine and meat friends” often act opportunistically and therefore should not be considered as a preferable relationship in China. Thus, there is a need to provide foreign firms and businessmen some insightful ideas relating to how to build and cultivate their relationships with the Chinese government.

Thus, *it is the main purpose of the present study to explore how to build and cultivate business to government (B2G) guanxi in China (PRC) and explore the challenges from western firm’s perspective.* In order to achieve the main research purpose, three objectives will be discussed in the present study.

The first objective is to *analyse the phenomenon of guanxi in order to increase basic understanding of guanxi.*

The second objective is to *explore the building stages and the main cultivating strategies of B2G guanxi in China.*

The third objective is *to empirically explore how a Finnish firm has tried to develop its B2G guanxi in China and explore the potential challenges.*

The present study has two main delimitations. Firstly, the focus of the present study is on B2G guanxi. Other types of guanxi are not considered. The present study gives specific investigation into building and cultivating B2G guanxi due to two reasons. Firstly, B2G guanxi is the dominant guanxi in China (Fan 2002b: 554). Secondly, different levels of Chinese government directly and indirectly influence firm's other stakeholders.

Secondly, the analysis of guanxi in China comes from three theories: *transaction cost theory* (Buttery & Wong 1999: 148), *social capital and social exchange theory* (Warren, Dunfee & Li 2004: 356), and *in-group identification theory* (Warren et al. 2004: 357). In the next, the three theoretical approaches are discussed.

Transaction costs are the costs on dealing with any exchanges (Hobbs 1996: 17). Transaction costs are associated with exchange such as research, information and the cost of monitoring contractual performance. Such costs are generated by the exchange process and are in addition to the market price of goods and services (Buttery & Wong 1999: 148).

Transaction costs can be divided into three types: information costs, negotiation costs and monitoring costs. Information costs refer to the costs of searching information for products, price, inputs, seller and buyer. Negotiation costs arise from the "physical act of the transaction", including negotiating and writing contract (costs in terms of managerial expertise, the hiring of lawyers. etc.), or paying for the service of the intermediary. Monitoring costs increase after a transaction has been negotiated and agreed. These costs include monitoring the quality of the products and behaviors of suppliers/buyers so that all the pre-agreed terms in the contract are met. (Hobbs 1996: 17)

Two key assumptions of transaction cost analysis are bounded rationality and opportunism (Standifird & Marshall 2000: 30; Zhang & Zhang 2006: 388). Asset specificity, environmental uncertainty, and the behavioral uncertainty of the partners are considered to be the three primary sources of transaction costs in a firm (Standifird & Marshall 2000: 25-28). However, they are only a proportion of the total costs in an organization (Zhang & Zhang 2006: 388). In a transitional economy, costs relating to information searches and subsequent authentication also contribute to an organization's total expenses (Zhang & Zhang 2006: 388). Wong and Chan (1999: 108) argued that it is the help of *guanxi* to reduce these transaction costs.

Social capital is defined by Adler and Kwon (2002: 17) as the “goodwill that is engendered by the fabric of social relations and that can be mobilized to facilitate action”. *Guanxi* is also defined as social relations or ties, which may facilitate conducting business in China (Su & Littlefield 2001; Fan 2002b). When discussed *guanxi* in a business context, *guanxi* may refer to not only a specific tie between two individuals (e.g. person A and B have *guanxi*) but also the entire network of ties of a specific individual (e.g. person X hired B because his *guanxi* network) (Aufrecht & Bun 1995). Warren et al. (2004: 356) asserted that the value of social capital is strongly dependent upon the value of the resources or opportunities potentially exchanged because of the tie. Alder and Kwon (2002: 34) argued that “only the resources potentially available to the actor in social exchange should be construed as sources of social capital”. Thus, social exchange is a crucial element in evaluating social capital (Warren et al. 2004: 356). Lawler (2000: 3) and Zafirovski (2005) indicated that “social exchange is conceptualized as a joint activity of two or more actors in which each actor has something the other values”.

In-group identification theory implies that *guanxi* “involves favoring those who share connections with the focal actor and, in many cases, these connections are based upon membership in the same social groups” (Warren et al. 2004: 357). For example, extended family members and common associations (e.g. classmates, colleagues) are two important foundations for in-group members. The research on in-group identifications implies that out-group members will be disparaged by in-group members

since the latter would like to enhance their perceptions and self-esteem (Ashforth & Mael 1989: 25).

Transaction cost theory, social capital and social exchange theory, and in-group identification are the foundations to discuss the benefits of guanxi and explain how to build and cultivate guanxi in China.

1.3. Previous studies

Table 1 summarizes the most cited previous research relating to building and cultivating business to government (B2G) guanxi in China. Other issues relating to the phenomenon of guanxi such as definitions and classifications of guanxi are discussed in details in the second chapter.

There are handful academicians specifically provided insights into how to build and cultivate guanxi in China. The most mentionable researchers are Vanhonacker (2004) and Yau et al. (2000). Vanhonacker (2004) theoretically asserted a systematic process of building guanxi in China and Yau et al. (2000) conceptually argued the main cultivating strategies of guanxi in China. Although other researchers such as Chen and Chen (2004), Pearce and Robinson (2000), and Yeung and Tung (1996) also contributed their efforts into building and cultivating guanxi in China, their theoretical and empirical assertions are just some of the elements. In addition, Fan (2007) and Luo (2001) discussed the complicated Chinese bureaucratic system, which is specifically relevant to building business to government guanxi in China. ‘

In general, most priori relative studies focus on theoretical analysis or general empirical investigation. The related theories are not comprehensive due to limited studies. There are rare systematic empirical inquiries because guanxi is a complex concept and therefore is not easy for researchers to operating and measuring it.

Table 1. The most cited previous research relating to the main concepts of the study.

Author(s)/Year	Methodology	Context	Fields of study
Building B2G guanxi			
Vanhonacker (2004)	Theoretical	Experience in the context of China	Reciprocity, obligation, and ethics of guanxi, Building and managing guanxi networks.
Chen & Chen (2004)	Theoretical	Chinese literatures and drawn insights from some equivalent western concepts and frameworks	The focus of the study is guanxi dyads
Pearce & Robinson (2000)	Qualitative/email surveys	The nine investigations were done in the context of China	To aid Western managers in gaining a perspective on how they can cultivate the guanxi.
Yeung & Tung (1996)	Qualitative/semi-structured interviews	19 firms from Hongkong (11), U.S. (5), Canada (1), Germany (1), and Sweden (1). Industry: real estate, finance, import/exports, the manufacture of toys, electronic products, and telecommunication equipment	The study investigates the importance of guanxi
Fan (2007)	Theoretical	Extensive review of published research studies and authoritative commentaries	The impact of the guanxi phenomenon on the management of corporate reputation in China.
Luo (2001)	Quantitative and qualitative	Questionnaire to 500 MNC subunits in Southern China and Beijing and 20 interviews from Nanjing. Later, a second survey sent to 60 EMBA students to confirm prior survey	Cooperative relations between MNCs and host government.
Cultivating B2G guanxi			
Yau et al. (2000)	Theoretical	Western and Chinese literatures	Concepts of relationship marketing in China, relationship building and keeping in China.
Chen & Chen (2004) Yeung & Tung (1996)	Methodology, context, and fields of their studies were already discussed		

1.4. Structure of the study

In **Chapter 1**, the background of the study, research purpose, objectives, and delimitations are presented. In addition, the previous studies are briefly evaluated and the structure of the study is presented.

In **Chapter 2**, backgrounds of guanxi, definition of guanxi, classification of guanxi, benefits of guanxi, and criteria of a true, healthy, and long-lasting guanxi are presented in this chapter.

In **Chapter 3**, the focus is to theoretically explore how to build and cultivate B2G guanxi and explore the potential challenges to foreign firms. Chapter 3 is divided into four subchapters. In the first subchapter, the building stages of B2G guanxi are discussed. In the second subchapter, the most often mentioned cultivating strategies of a true, healthy, and long-lasting B2G guanxi are identified. Thirdly, the potential challenges to the development of guanxi from western MNC's view are explored. Lastly, a comprehensive theoretical framework is presented and discussed.

In **Chapter 4**, the methodology used in the present study is explained in this chapter. Research approach and method, case study research strategy, and data collection are firstly discussed. Furthermore, method of data analysis is explained and at the end of this chapter, the validity and reliability of the study is discussed.

In **Chapter 5**, the focus of this chapter is to empirically explore how a Finnish firm build and cultivate its B2G guanxi in China and its potential challenges. A variety of issues are discussed. The formation, facts and internationalization of the case company, motivations, presence and entry mode in China, and comparison of the case company's B2B and B2G guanxi are presented at the first. Later on, building the case company's B2G guanxi, cultivating the case company's B2G guanxi, and the case company's challenges to developing B2G gaunxi are discussed.

In **Chapter 6**, the summary and conclusions of the present study are presented in this chapter. There are two subchapters. In the first subchapter, the present study is summarized and the main purpose and objectives are answered. In the second subchapter, the discussion of the empirical results in relation to previous research, managerial implications, limitations of the study, and recommendations for future research are given.

The structure of the study is summarized in figure 1. Chapter 1 is presented at the forefront of the whole thesis as it gives reader the overall picture of the study. In addition to chapter 1, the rest chapters are parallelly grouped into two parts: theoretical and empirical parts.

The issues which are discussed in chapter 2 and 3 are theory related. Theoretical framework is formulated mainly in accordance with the issues which are discussed in chapter 2 and 3. Conversely, chapter 4 and chapter 5 are empirical related discussions. Methodology is presented in chapter 4 and empirical findings are given in chapter 5. The summary and conclusions in chapter 6 are based on the theoretical framework and the empirical findings.

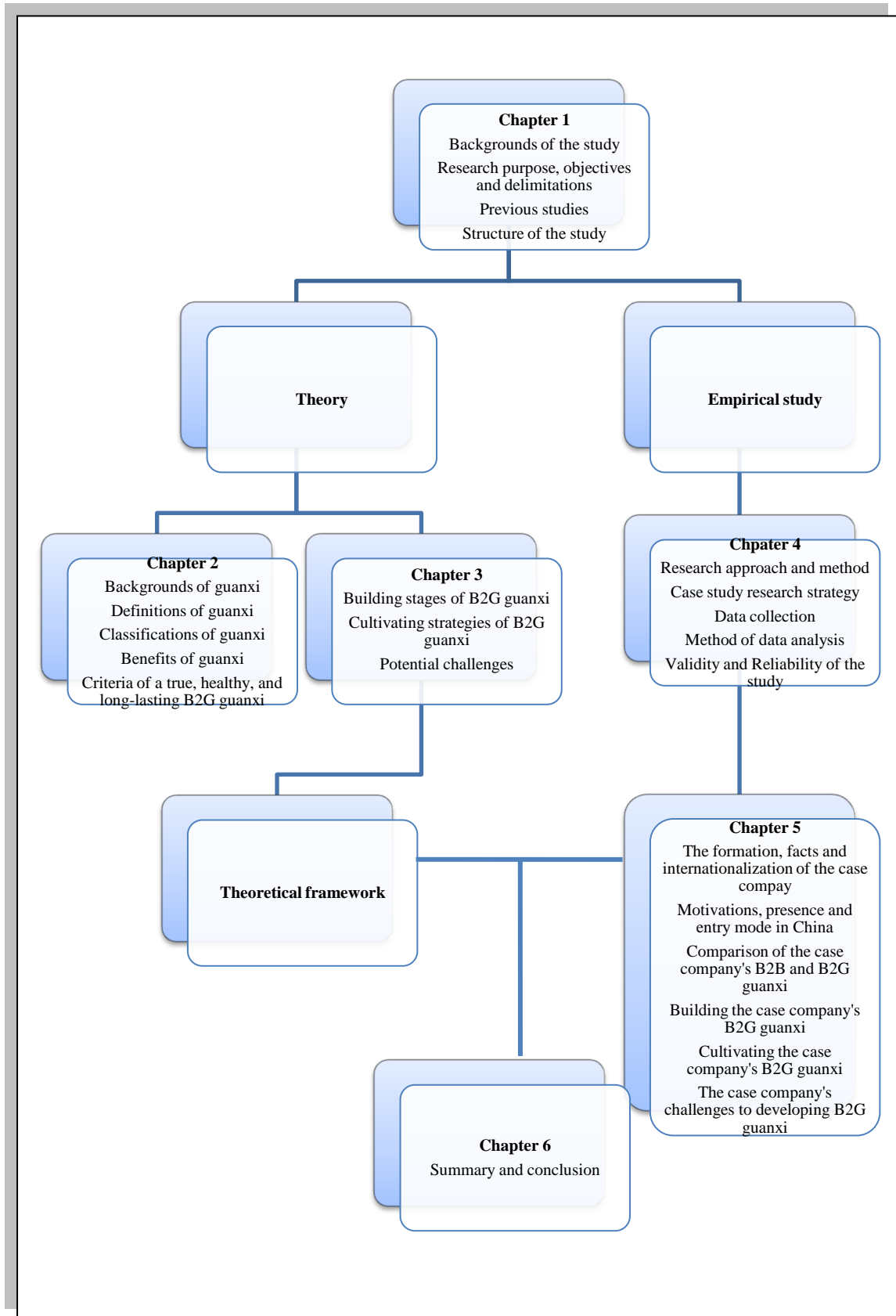


Figure 1. Structure of the study.

2. THE PHENOMENON OF GUANXI

The main objective of discussing the phenomenon of guanxi is to increase the basic understanding of guanxi. Backgrounds of guanxi, definitions of guanxi, classifications of guanxi, benefits of guanxi, and criteria of a true, healthy, and long-lasting guanxi are discussed in this chapter.

2.1. Backgrounds of guanxi

This subchapter discusses the origin and backgrounds of guanxi. The unique character of the practice of guanxi is a production of Chinese exclusive culture and long history. Understanding of backgrounds of guanxi can help western businessmen to better adjust themselves in building and cultivating their B2G guanxi in China.

Guanxi in China is a very ancient concept embedded in the Confucian concept of life (Zhang & Zhang 2006: 375). Even though the connotations of guanxi in a Chinese context are changing over time, one can still trace its fundamental meanings to Confucian's philosophies (Confucius 551-478 B.C). The philosophy of Confucian is the historical and cultural root of guanxi. However, according to King (1991), the term guanxi cannot be found in the writings of Confucianism, instead of guanxi, *lun* was literally used by Confucius. Chen and Chen (2004: 307) asserted that *lun* captures a number of the most essential aspects of the ancient Chinese social systems and its political and moral philosophy and therefore explaining the meaning of *lun* can highlight the backgrounds of guanxi. *Lun* has three meanings. Its first meaning emphasizes the importance of relations in ancient Chinese society. The second meaning of *Lun* is related to social order. *Lun*'s last meaning defines moral principles in Chinese society. The three meanings of *Lun* are discussed in details in the following paragraphs.

The first meaning of *lun* emphasizes the *importance of human relations in ancient Chinese society*. Confucianism's fundamental tenet is the importance of putting oneself into a hierarchical social relationship. According to Yeung and Tung (1996: 55), Confucian defined five social relationships: ruler-subject, father-son, husband-wife, brother-brother and friend-friend. They are literally called Five Cardinal Relationships (*wu lun*) (Chen & Chen 2004: 307). A person's fulfillment of the responsibilities of a given role ensures the smooth functioning of society. The five social relationships conduct Chinese human behaviors. Modern Chinese societies are still relationship oriented.

The second meaning of *lun* is *social order*. According to Chen and Chen (2004: 307-308), the social order in ancient Chinese society is based on differentiation, which can be interpreted hierarchically and horizontally. Hierarchical differentiation means that the members' rights and obligations were strongly required differently. The ruler, father, husband, elder brother and senior friend had more rights than subject, son, wife, younger brother and junior friend. Redding and Wong (1986: 284) explained horizontal differentiation refers to self is "at the center of a series of concentric circles" (Chen & Chen 2004: 308). Self in the Chinese society has a wide of social relationships with others. The social relationships with others are different due to the degree of closeness. For example, in a traditional Chinese family, according to the closeness the family individuals can be classified into family member, clan member, close relatives and distant relatives (Chen & Chen 2004: 308). Thus, those relatives within the same family have different rights and obligations.

Finally, Chen and Chen (2004: 308) indicated "*lun* refers to *moral principles* regarding interactive behaviors of related parties". The moral principles were identified differently due to the Cardinal Five Relationships in ancient Chinese society. The third meaning of *lun* indicated that there is no unique moral principle in modern Chinese society. Different parties evolved in the variety of relationships have different perceptions regarding moral principles.

2.2. Definitions of guanxi

Guanxi is a complex Chinese phrase which is not easy to be translated precisely by English. A Chinese character may imply different meanings when it is used as a noun, a verb or with another character as a phrase. Guanxi contains two Chinese characters: guan (关) and xi (系). The first character “guan” as a noun means “a pass” or “a barrier” and as a verb means “to close”. The second character “xi” as a noun means “a system” and as a verb means “to link”. Etymologically, guanxi means special connections (xi) among people who pass through the gate (guan) (Gao, Ballatyne & Knight 2008: 3). Academicians understand guanxi in different perspectives. In this chapter, the author firstly lists some of the definitions which are adopted in previous research and classifies them into three groups. Then, the definition of guanxi which is adopted in the present study is discussed. The definitions of guanxi in the main studies are grouped as follows: the first group indicates that guanxi simply means 1) interpersonal relationship, furthermore, guanxi is defined in details as 2) bounded relationship between individuals, which aims to achieve mutual benefits through the exchange of favors and helps, and the last group gives specific attention to 3) the relationship between guanxi and business.

In general, guanxi is simply referred as *interpersonal relationship*. For example, Alston (1989: 28) added on guanxi as “special relationships two persons have with each other”. Su and Littlefield (2001: 199) asserted that guanxi means interpersonal relationships and connections. Fan (2002a: 371-372) defined guanxi as a process of social interaction in which initially two individuals are engaged.

Guanxi is furthermore concerned as *bounded relationship between individuals, which aims to achieve mutual benefits through the exchange of favors and helps*. Yeung and Tung (1996) viewed guanxi as a “‘connection’ which allows transactions or exchanges aiming at mutual benefits”. Pearce and Robinson (2000: 31) noted that guanxi is a “network of relationships a person cultivates through the exchange of gifts and favors to attain mutual benefits”. Chen and Chen (2004: 306) defined “guanxi as an indigenous

Chinese construct and define it as an informal, particularistic personal connection between two individuals who are bounded by an implicit psychological contract to follow the social norm of guanxi such as maintaining a long-term relationship, mutual commitment, loyalty, and obligation”. Wong et al. (2007: 876) added on guanxi as reciprocal obligation which is used as responding to others’ assistance and help.

Furthermore, there are some other definitions of guanxi, which give an emphasis on the *relationship between guanxi and business*. For example, Luo (1997) stated that guanxi is an individual connection which secures their personal or business favors. Similarly, Fan (2002b: 551) asserted that business guanxi is a “process of finding business (rather than personal) solutions through personal connections”. Lee and Humphreys (2007: 451) added on guanxi as a “corporate culture that has a strong emphasis on the relationships between business partners for achieving mutual benefits and involves the use of personal and/or inter-firm connections to secure favors in the long run”. Table 2 summarizes the definitions of guanxi.

Table 2. Summary of guanxi definitions.

Author(s)/Year	Definition of guanxi
Alston (1989) Su & Littlefield (2001) Fan (2002a)	Interpersonal relationship
Yeung & Tung (1996) Pearce & Robinson (2000) Chen & Chen (2004) Wong et al. (2007)	Bounded relationship between individuals, which aims to achieve mutual benefits through exchange of favors and helps
Luo (1997) Fan (2002b) Lee & Humphreys (2007)	Specific attention to relationship between guanxi and business

However, the definitions in existing studies are problematic. The most obvious similarity of the definitions emphasize guanxi is a kind of relationship or connection at personal level. Indeed, guanxi is a kind of personal relationship or connection, but relationships do not necessarily produce guanxi (Fan 2002a: 371).

There are two fundamental differences between guanxi and relationship. Firstly, according to definition, guanxi exists mainly between individuals while relationship refers to all types of internal and external relationships an organization may have (Morgan & Hunt 1994: 3). Guanxi is a sort of social capital which is owned by individuals and therefore is mainly considered at personal level, although it may also exist at the organizational level (Tsang 1998: 65). Whether an organization can be benefited by its employee's guanxi entirely depends upon its employee's willingness. The employee may use his guanxi to benefit his employer but this guanxi is still personally owned. When the employee is resigned or retired he takes his guanxi with him (Fan 2002a: 375). Secondly, Fan (2002a: 372) distinguished relationship and guanxi according to the needs of evolved individuals. To a certain degree (strong or weak) relationship exists all the time. Conversely, guanxi can only happen when there is a need for something to be done. This need triggers the development of guanxi. Thus, western businessmen who desire to seek and develop some sort of guanxi in China should bear in mind the distinctions between relationship and guanxi, though the two terms are sometimes interchangeable.

As discussed earlier, the origin of guanxi, *lun*, has three meanings. The three meanings of *lun* are relevant to the first and second type of guanxi's definitions. Firstly, one of the meanings of *lun* highlights the importance of putting oneself into Five Cardinal Relationships (Chen & Chen 2004: 307). All the five social relationships are at personal level, which is in line with the first type of guanxi's definition. Secondly, another meaning of *lun* refers to moral principles regarding interactive behaviors of related party (Chen & Chen 2004: 308). The second type of guanxi's definition emphasizes that the relationship between individuals are bounded so as to achieve mutual benefits. The involved persons in guanxi should interact toward with each other in order to achieve mutual benefits, which is concerned as the moral principle of guanxi.

The definition of guanxi adopted in the present study is the third type of definition. Among the three definitions which give specific attention to relationship between guanxi and business, Fan's (2002b: 551) definition best suits the topic of the present study. Compared to other definitions which are shown in table 2, Fan's (2002b) definition not only indicates that guanxi is studied at personal level in the present study, but also more properly explains the meaning of business to government guanxi.

2.3. Classifications of guanxi

Guanxi is a complex social construct with many variations. Existing literature describes many different typologies of guanxi according to the nature, purpose of guanxi, or its base (Yang 1993; Tsang 1998; Fan 2002a, 2002b; Chen & Chen 2004). Although different academicians used a variety of terms to name their classifications of guanxi, most of their guanxi classifications were made in accordance with the interpersonal intimacy of the evolved persons (scope of guanxi) (see table 3).

Some of the academicians (Hwang 1987; Yang 1993; Fan 2002a, 2002b; Chen & Chen 2004) classified guanxi into three types, probably, only Tsang (1998) grouped different guanxi into two types. However, their first two classifications of guanxi are the same. The persons who are involved in the first type of guanxi are family members and relatives. The terms used to describe this type of guanxi are: *expressive ties*, *jia-ren guanxi*, *family guanxi*, and *blood guanxi*. They designate the closest possible relation (Braendle, Gasser & Noll 2005: 394). The members who belong to the second type of guanxi are familiar persons such as neighbors, friends, (former) colleagues, or (former) classmates. *Mixed ties*, *shu-ren guanxi*, *helper guanxi*, *familiar guanxi*, and *social guanxi* were used by academicians to define the second type of guanxi. The English terms, *family guanxi* and *familiar guanxi*, are used hereafter. In doing so, foreign businessmen are easier to understand what specific type of guanxi is referred.

Table 3. Summary of guanxi classifications in the main studies.

Classification of guanxi	Scope of guanxi
Hwang (1987) <ol style="list-style-type: none"> 1) Expressive ties 2) Mixed ties 3) Instrumental ties 	<ol style="list-style-type: none"> 1) Family members 2) Friends, neighbor, classmates and colleagues 3) Strangers
Yang (1993) <ol style="list-style-type: none"> 1) Jia-ren guanxi 2) Shu-ren guanxi 3) Sheng-ren guanxi 	<ol style="list-style-type: none"> 1) Family members 2) Friends, colleagues, classmates, etc 3) Strangers
Tsang (1998) <ol style="list-style-type: none"> 1) Blood guanxi 2) Social guanxi 	<ol style="list-style-type: none"> 1) Family members and relative of the same clan 2) Members in the same organization
Chen & Chen (2004) <ol style="list-style-type: none"> 1) Family guanxi 2) Familiar guanxi 3) Stranger guanxi 	<ol style="list-style-type: none"> 1) Family members, relative 2) Classmates, colleagues, etc. 3) Strangers
Fan (2002a, 2002b) <ol style="list-style-type: none"> 1) Family guanxi 2) Helper “gaunxi” 3) Business guanxi 	<ol style="list-style-type: none"> 1) Family members, relative 2) Former classmates, colleagues, etc. 3) B2B and B2G guanxi

The dispute of guanxi’s classification has long focused on the third type of guanxi. Interestingly, Hwang (1987), Chen and Chen (2004) and Yang (1993) argued that *strangers* also have guanxi. This type of guanxi is termed as *instrumental ties*, *stranger guanxi* and *sheng-ren guanxi* in the Chinese version. Tsang (1998), in contrast, argued that strangers do not possess guanxi. Probably, the disagreement has appeared is

because some researchers are confusing the differences between relationship and guanxi. Those academicians who perceive guanxi is the same as relationship may assert that two unrelated persons are also connected to each other, though the degree of this connection is the weakest among all their relations. In the present study, the author has asserted that strangers have some sort of relationships (not guanxi), which should be clearly differentiated from family and familiar guanxi.

With all types of guanxi in mind, one can envisage a system of concentric cycles, using the ego as the reference centre, representing ego's all Chinese social relations (see figure 2). The system of concentric cycles illustrates the interpersonal intimacy of the three types of guanxi. Family members and relatives represent ego's closest relations and they are at the central attention of all ego's social relations. Strangers have the weakest relationship with ego and familiar members have the modest degree of interpersonal intimacy with the ego.

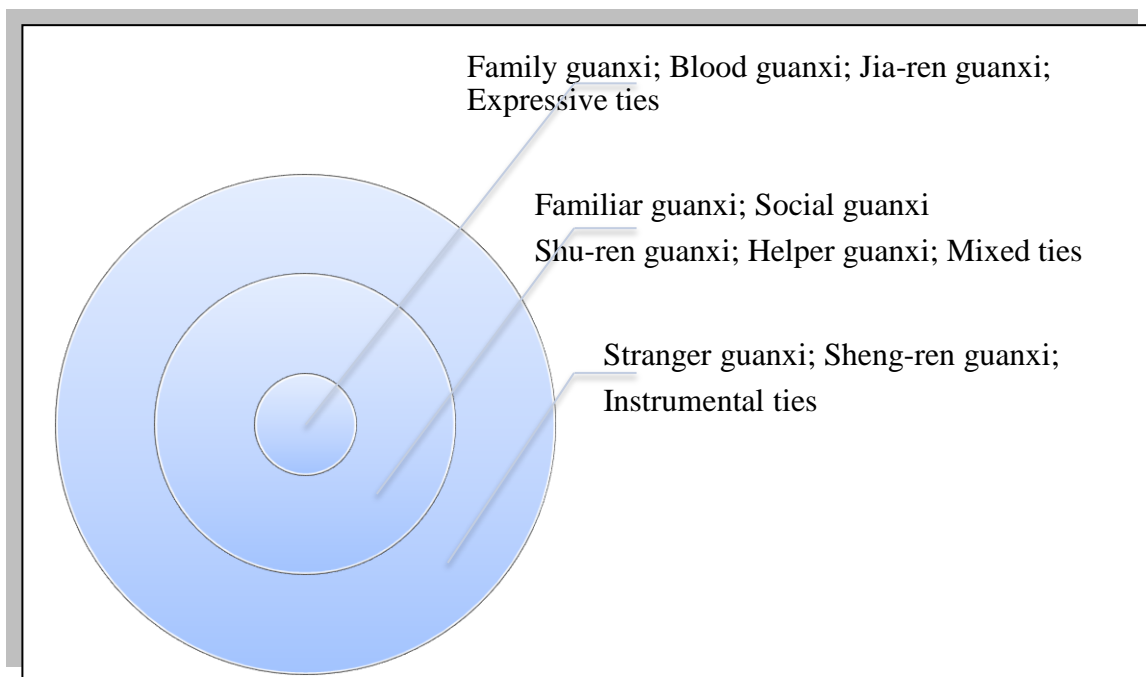


Figure 2. Chinese social relations (Hwang 1987; Yang 1993; Tsang 1998; Fan 2002a, 2002b; Chen & Chen 2004).

It is noteworthy that Fan (2002a, 2002b) argued that the classifications of guanxi which are discussed above are problematic as the academicians (Yang 1993; Tsang 1998; Chen & Chen 2004) grouped guanxi in a general level and treated it as a single phenomenon. The dominant guanxi, business guanxi, was not singled out from their classifications. Thus, Fan (2002a, 200b) asserted that business guanxi is another type of guanxi in China in addition to family and familiar guanxi.

Business guanxi is a “process of finding business (rather than *personal*) solutions through *personal* connections (Fan 2002b: 551). Business guanxi is furthermore divided into business to business (B2B) guanxi and business to government (B2G) guanxi (Fan 2002b: 554). B2B guanxi usually describes the relationship between two business persons and B2G guanxi indicates that in the relationship one of the persons is businessman and the other person is a Chinese government official (Braendle, Gasser & Noll 2005: 399).

According to Fan (2002b), compared to other two types of guanxi, business guanxi is different in many aspects, which is shown in table 4. For example, family guanxi is rooted in Confucian values, emotionally driven, qinqing (affection) is exchanged, in which reciprocity is not necessary. In contrast, business guanxi is shaped by current/economic structures, purely utilitarian driven, reciprocation is necessary. It is worth noting that some unique aspects of business guanxi such as motivation and downside in table 4 are specifically relevant to B2G guanxi. Because Chinese government officials have absolute power to allocate scarce resources, and the dark side of guanxi in the Chinese political context is corruption (Pearce & Robinson 2000: 36).

It should be noting that guanxi in reality is far more complicated. Guanxi between two persons can be a mixture of different types of guanxi, or it may have a significant change over time (Fan 2002b: 551). In the present study, guanxi between western businessmen and the Chinese government official is a mixture of business guanxi with either familiar guanxi or stranger guanxi, since most of the western businessmen are neither family members nor extended relatives of the Chinese government officials.

Table 4. Comparison of business guanxi with other types of guanxi (Fan 2002b: 552).

Type	Family guanxi	Helper guanxi	Business guanxi
Definition	Special relationship, the expressive tie	Process of exchange favors	Process of finding business solutions through personal connections
Nature	Emotional, and instrumental	Instrumental/utilitarian	Purely utilitarian
Cultural /social root	Chinese culture values	Cultural values and contemporary social-economic factors	Current political/economic structures, e.g. Weak legal system
Base	blood base, some social base	Social base	Social base, or through intermediary
Core values	Qinqing/affection, obligations, empathy	Renqing, face, trust and credibility	Renqing,,face, power/influence
Motivation /purpose	Mutually dependent, emotion-driven	‘To get things done’ utility-driven	To acquire scarce resources or get special treatment
Function	Ends and means	Means	Means
Condition	Obligation. Reciprocity is not necessary, can be altruistic	Reciprocity expected, but the weaker party benefits more,	Strictly reciprocal, ‘gain and loss’ bargaining
Relation	‘Jiaren’ (member of a big family)	‘Shuren’ (familiar person), Outsider, but not stranger	Outsider, a mixture of private and business relations
Quality /closeness	Strong and stable	Medium, normally unstable	Varies (depends on the existence of other bases)
Downside	Nepotism	Burden of renqing (human debts)	Corruption, social loss
Time	Long-term	Temporary or long-term	Varies

2.4. Benefits of guanxi

There are a number of benefits of having guanxi in China with government officials. The *first* benefit of B2G guanxi is in line with the transaction costs theory. According to Hobbs (1996: 17), one type of the transaction costs is information costs, which is related to the costs of searching information for products, price, inputs, seller and buyer. The information searching costs contribute to a significant proportion of a firm's total costs in a transitional economy (Zhang & Zhang 2006: 388). With the help of B2G guanxi foreign companies can obtain essential information such as market trends, government policies, and business opportunities in China (Tai 1988: 8; Björkman & Kock 1995: 524; Fork & Woo 1998: 35; Yau et al. 2000: 16; Fan 2002b: 554; Braendle et al. 2005: 400), and acquired information through personal relationship is more trustworthy, useful and up-to-date than through "official line" in China. Thus, B2G guanxi can help firms to save their researching costs, information costs, and speed up decision-making (Davies, Leung, Luk & Wong 1995: 212; Wong & Chan 1999: 108; Yau et al. 2000: 16; Wong et al. 2007: 876).

Secondly, guanxi helps companies to obtain important resources such as land, utilities, and local supplies of labour and materials (Tai 1988: 8; Fork & Woo 1998: 35).

Thirdly, unbeatable B2G guanxi in China is helpful to get administrative approvals in a shorter time (Tai 1988: 8; Davies et al. 1995). In China, western businessmen have to wait a lengthy time to get the government approvals since multilevel government officials are usually involved (Luo 2001: 408) and there are few rigid deadlines for them to make the decisions (Pearce & Robinson 2000: 37). With the help of B2G guanxi the waiting time can be expedited (Pearce & Robinson 2000: 37). In-group identification theory is the foundation to explain this benefit. Because of getting the Chinese government approvals in a short time is a kind of favour, which is only done between in-group members (Warren et al. 2004: 357). It is the purpose of building and cultivating "guanxi" to transform out-group members into in-group members (Chen &

Chen 2004: 316). *Lastly but not the least*, another benefit of guanxi concerns the smooth running of routine business operations in China (Davies et al. 1995: 212).

The disputes of the importance of guanxi have never stopped because guanxi also has its obvious downside, that is, inappropriate development of guanxi with Chinese government officials often leads to corruption (Fan 2002b). If western firm and its managers are aware of the problem and consciously approach to the Chinese government officials in a proper way, the downside of guanxi can be diminished. In conclusion, as there is a great deal of advantages, B2G guanxi is worthwhile to be built and cultivated in China.

2.5. Criteria of a true, healthy, and long-lasting guanxi

According to Yau et al. (2000: 17), bonding, reciprocity, trust, and empathy are the criteria of a true, healthy, and long-lasting guanxi in China. Cultivating strategies of guanxi in China are designated to achieve the four criteria. It is worth noting that they are not exclusive but essential in avoiding opportunistic relationship in the Chinese context. Although relationship building in western countries is also significantly influenced by bonding, trust, reciprocity, and empathy, the four criteria have different meanings and unique practices in China. In the next, the major differences of bonding, trust, reciprocity, and empathy in China and western countries are discussed in details.

Bonding

According to Callaghan, Mcphail & Yau (1995), bonding in the western context refers to the suppliers and buyers acted together to accomplish shared goals such as sale or purchase. Conversely, bonding in the Chinese context aims to “control social and business behavior in society by addressing the similarities between two parties in terms of origin, and by removing doubt” (Yau et al. 2000: 17).

Compared to western people, Chinese prefer to divide people into different groups based on their similarities and treat them accordingly. The unique aspects of bonding can be traced back to ancient Chinese society, where the Confucian defined five social relationships (Five Cardinal Relationship, *wulun*). According to Confucianism's tenet, it is one's responsibility for putting himself in a social relation, and he has to treat all his social relations hierarchically and horizontally (see chapter 2.1.).

Bonding can be divided into two bases: blood and social (Yeung & Tung 1996; Yau et al. 2000; Fan 2002b). **Blood**, including family members and extended relatives. **Social**, including such friends as work colleagues, neighbors, schoolmates. This is not to suggest that people who do not share some of these common backgrounds will not have a chance to develop their relationship (Yau et al. 2000: 17). Whether blood or social, is the degree of closeness between the two persons. The degree of closeness is determined by "ganqing" or affection, which is "a measurement of the emotional commitment of the party evolved" (Tsang 1998: 66). Thus, developing "ganqing" is more important to western businessmen since the majority of them have neither blood nor social common bases with the target person.

Reciprocity

The precise meaning of reciprocity (*bao*) in the Chinese context is "to return" (Yau et al. 2000: 18), which is a basis of social relation. In the western context, reciprocity "means either party providing favors or making allowances for the other in return for similar favors or allowances to be received at a later date (Yau et al. 2000: 18). According to the definition reciprocity has the same meanings in Western context and Chinese context. However, the implementation of reciprocation in the two contexts is dissimilar.

Firstly, the *appropriate timing to return or to repay* to the favor giver is different. Westerners tend to do the reciprocation in a short time in order to release their tension. Chinese, unlike the western people, believe that reciprocation do not have to be given immediately but should be given at the right time. The right time is when both of the

parties can be benefited (Yau et al. 2000: 18). Since reciprocation in China is given later on and therefore is morally binding and has a direct influence to the trustworthiness of the Chinese reciprocation giver (Tsang 1998: 67).

Secondly, in western context, *the value of the returned favor and the repayment* are expected to be equivalent. In the Chinese context, if the favor can be measured, the value of the repayments should be greater than the favor (Chen & Chen 2004: 317). Two reasons are behind this. One of the reasons is that the reciprocity giver will not be regarded as a “gentleman” if he gave less valuable reciprocation. The other reason is that greater value of repayments will probably prolong “guanxi” because the receiver is indebted (Yau et al. 2000: 18). The “rule” of reciprocation implies that after favoring from Chinese government officials western businessmen should do reciprocation to them at an appropriate time and with a greater value.

Trust

Trust (*Xin*) in China serves as “the basis of role obligation” (Yau et al. 2000: 19). There are two unique characteristics of trust in the Chinese context.

Firstly, China is regarded as *a high in particularistic trust, such as among family members, but low in general trust in larger collectivities* (Redding 1993; Tsang 1998: 67; Yau et al. 2000: 19). Chinese society is built around clan-like networks, with the close family members and kinship at the core (Yang 1993). Loyalty and trust for family members is an obligation and is rendered without anticipation of reciprocity (Yau et al. 2000: 19). In larger collectivities, trust exists between in-group members. Out-group members usually treat each other untrustworthy (Björkman & Kock 1995: 526). Chinese people are likely to spend a lengthy time to judge the trustworthiness of the out-group members before making any business decisions.

Secondly, *trust is closely linked with reciprocation*. Because reciprocity is not given immediately in China, thus, it is the purpose of trust to ensure the persons are unlikely to act opportunistically (Tsang 1998: 67).

Empathy

Imitable development of guanxi requires the guanxi seeker to “get personal” with the other person (Yau et al. 2000: 19). “Get personal” requires both persons to share their inner feelings and personal concerns. This is the meaning of the old Chinese saying “when making a friend, make it hear-to-heart” (Su & Littlefield 2001: 207). In order to achieve this, guanxi seeker should have empathy, which is defined as the ability to understand the other party’s desires and goals (Yau et al. 2000: 19). “Understanding” is one of the most important features of an intimate guanxi and it seems to go beyond “trust” and “commitment” in an empathetic sense (Su & Littlefield 2001: 207). If the two persons who seek to build close guanxi are different nationalities, empathy should be linked at *a cultural level to the ability of an individual to see situations from another’s perspective, although not necessarily agreeing with such a perspective*.

Empathy plays a major role in developing personal relationship in China because Chinese people do not freely and openly express their opinions and preferences, so as to avoid being offend or being rejected from others (Yau et al. 2000: 19). Conversely, they expect others to anticipate their needs or feelings. *There is a high correlation between empathy and reciprocation*. Reciprocation can have its full meanings if guanxi seeker has the ability to understand the other person’s needs and desires.

The four criteria of a true, healthy, and long-lasting guanxi in China are interrelated (see figure 3). One criterion can significantly influence or can be influenced by another criterion. For example, being aware of the unique practice and norms of reciprocity can have a positive influence on guanxi seeker’s trustworthiness and vice versa (Tsang 1998: 67), in addition, high degree of trust exists among close family members (blood base). Reciprocity is not a necessary for family members (blood base). In contrast, it has to do

between guanxi members who are bounded by social bases (Fan 2002b). To return favor or help (reciprocity) requires guanxi seeker to have the ability (empathy) to understand the other party's needs at a culture level, and so on.

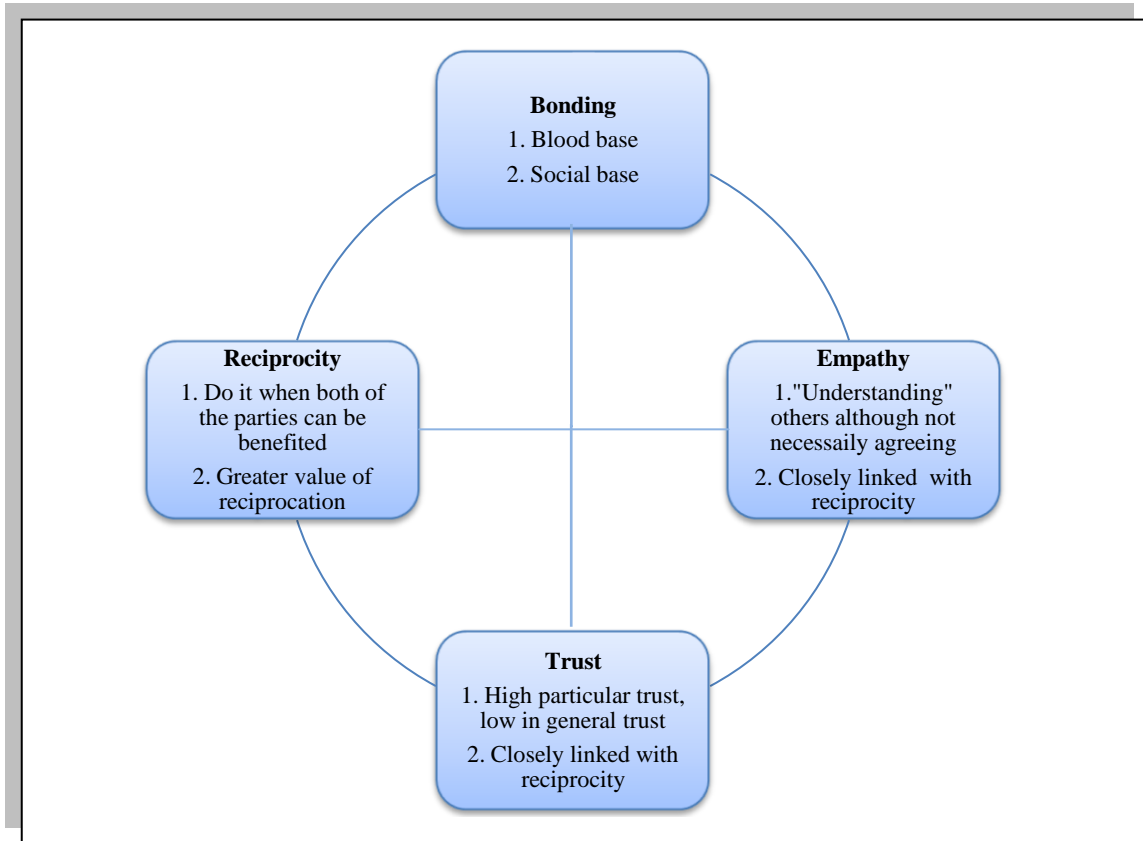


Figure 3. Criteria of a true, healthy, and long-lasting guanxi in China.

In conclusion, as guanxi is a complex phenomenon it is almost impossible to reveal all criteria to determine whether a relationship is a true, healthy, and long-lasting guanxi. Nevertheless, the four discussed criteria are mentioned at the most by academicians and practitioners and their unique practices should be achieved so as to build a closer guanxi.

3. BUILDING STAGES AND CULTIVATING STRATEGIES OF B2G GUANXI IN CHINA

In the existing literature, building guanxi and cultivating guanxi are often considered as interchangeable terms. However, in the present study, the two terms have a clear distinction. Building guanxi mainly considers how foreign firms can initially set up appropriate contacts with the Chinese government officials. Cultivating guanxi is a further step aims to develop closer guanxi.

The main objective of the third chapter is to theoretically explore how to build and cultivate business to government guanxi in China. There are three subchapters. The focus of the first subchapter is to discuss how western companies can build initial contacts with the Chinese government officials. The central intention of the second subchapter is to explore some strategies which can help western firms to develop closer guanxi with the Chinese government officials. Lastly, the potential challenges from foreign firm's perspective are discussed. The theoretical framework of the present study is mainly formulated in accordance with the issues discussed in this chapter.

3.1. Building stages of B2G guanxi

Guanxi in China is considered mainly at individual level (Alston 1989: 28; Xin & Pearce 1996: 1642; Su & Littlefield 2001; Fan 2002a; Standifird 2006: 176). Guanxi are rarely considered at organizational level unless its employees are willing to use their guanxi to achieve the organization objectives (Fan 2007: 505). Tai (1988: 8) asserted that the right personal connections in China facilitate firm's business activities by providing cheap and reliable materials, tax concessions, approvals to sell products, and provision of assistance when problems arise. Similarly, Xin and Pearce (1996: 1641) indicated that one of the reasons drives business executives to develop close personal

relationships is to “obtain resources or protections otherwise are not available”. Luo (2001: 407) pointed out that all levels of government officials in China have the rights to “approve projects, allocate resources, and arrange financing and distribution”. Thus, the author argues that building and cultivating B2G guanxi in China corresponds to establishing close personal relations with Chinese government officials.

In addition to Vanhonacker (2004), few researchers have contributed their work relating to specific building stages of guanxi, especially B2G guanxi in China. Although other mentionable researchers such as Chen and Chen (2004), Pearce and Robinson (2000), and Yeung and Tung (1996) have also provided valuable insights into building stages of guanxi, their findings are just some of the elements and therefore cannot be regarded as a comprehensive building process. Thus, the identified building stages of B2G guanxi in the present study are mainly based on Vanhonacker’s (2004) research. Other researchers’ assertions are integrated into Vanhonacker’s (2004) indication in order to give an analytical and comprehensive view of building stages of guanxi.

According to Vanhonacker (2004: 52), there are four steps to establish initial contacts with Chinese: *targeting*, *scouting*, *signaling* and *packaging*. In the next, each of the stages is discussed.

3.1.1. Targeting

The first stage is *targeting*, which is defined by Vanhonacker (2004: 52) as “*identifying the key person with whom you want to build a relationship*”. Guanxi seeker should bear in mind two significant issues when selecting the target person. ‘

Firstly, the selection of the key person highly depends upon your *instrumental objectives*. Thus, before targeting the person one should know how guanxi helps him or his organization to achieve instrumental objectives.

Secondly, guanxi seekers should keep a *strategic view* to select the target person. They should avoid identifying the target person on “add-on” or “as-needed” basis because “add-on” or “as-needed” basis would lead to an opportunistic relationship (Yau et al. 2000: 17; Vanhonacker 2004: 52). According to Vanhonacker (2004: 52), it is better to establish a long-lasting relationship in China due to following reasons. Firstly, a long-term relationship gives guanxi seekers an opportunity to receive more favors and an opportunity to say no without losing face. Secondly, a long-term relationship also secures help, support, and protection to guanxi seekers. Thirdly, China is a politically sensitive country, involving guanxi networks will assure guanxi seekers to integrate to the social environment.

The focus of the present study is B2G guanxi in China and therefore the identified “right person” must be an influential Chinese government official. Thus, it is necessary to discuss the complicated Chinese bureaucratic system.

Fan (2002b: 553) asserted business guanxi is a production of China’s transitional social-economic and political systems. China has undergone economy reforms since 1978 (Simmons & Munch 1996: 92). The economy reform is to moving from central planned economy to market-driven economy (Simmons & Munch 1996: 92; Braendle et al. 2005: 390). In addition to the changes of economy, China has almost made no progress on changing political system. Chinese Communist Party was and is till the dominant ruler of the society. Chinese Communist Party is influencing every facet of Chinese life and society. One of the key objectives of the economy reform is to decentralize the direct management of central government on China’s economy. To some extent the political decentralization in China has been achieved. Central government has less engaged in managing the economy in China.

As a consequence of decentralization, China has an increasing number of autonomous governments in various regions due to decentralization (Luo 2001: 408). The complex Chinese political system can be further more divided into five different levels (Fan 2007: 504-505). (See table 5)

Table 5. Five different levels of Chinese political system (Fan 2007: 504-505).

Levels	Government Body
Level 1	Central government-The State Council and responsible ministries and bureau
Level 2	Local provincial or city government and its responsible departments
Level 3	Industry and trade associations, many of them either former government agencies or having close links with ministries
Level 4	Communist Party organizations and trade unions (affiliated to the Party)
Level 5	Other government departments that may indirectly affect business operation (e.g. public bureau)

Similarly, Luo (2001: 408) used a matrix to describe the Chinese complicated bureaucratic system. Vertically, the matrix includes two levels: national level and regional level. The matrix horizontally includes multi level authorities, such as (1) a political government, (2) administrative bureaus (e.g., foreign exchange control bureau, foreign investment commission, and taxation bureau), and (3) a related industrial department (e.g., department of the information industry). All levels of government officials have the right to “approve projects, allocate resources, and arrange financing and distribution” (Luo 2001: 407). It is important to notice that top government is only responsible for strategic planning and lower levels of government is in charge of operational management (Fan 2007: 505).

Obviously, it is a challenge for foreign businessmen to interact with governments and manage corporate-government relationships (B2G guanxi) in a complex Chinese political system (Luo 2001: 408; Fan 2007: 504). For multinational companies, the critical player in the political system is the ministry or department in charge of specific industry (Fan 2007: 505). Nevertheless, due to the administrative and approval decisions process usually involve multilevel government agencies, which are

responsible for China's economy, technology, environment, and so on (Tsang 1998: 68), western businessmen should develop contact points at different levels of government agencies (Arias 1998: 152; Luo 2001: 408; Fan 2007: 508). Thus, it would be more precisely to say to build and cultivate a set of B2G guanxi rather than a B2G guanxi. It should be noting that a B2G guanxi with one of the handful top government officials may be better than a set of B2G guanxi with lower level government officials (Tsang 1998: 68).

In conclusion, constant interaction with government at different levels and effective adjustments in business strategies in response to changing government policies were crucial prerequisites for business success in China (Message from The second annual Summit on Government Relationship Management in Beijing, China Daily 2005).

3.1.2. Scouting

The second step is *scouting*. It is the purpose of scouting to build a bridge so as to close the gap between guanxi seeker and the target person. According to Vanhonacker (2004: 52), scouting “*involves identifying a common basis for a relationship and figuring out if intermediaries will be necessary to have that basis with the target*”. Thus, at this stage, guanxi seeker can either identify a common basis with the target person or use intermediaries to close the gap. Yeung and Tung (1996: 61) made the same assertion, but they used different terms. The terms are: **group identification** and **altercasting**. In the next, the two alternative mechanisms are discussed in details.

Group identification

The theory of in-group identification is the foundation to explain the need of group identification as a mechanism to close the gap between two unrelated individuals. According to in-group identification theory, out-group members are usually disparaged by in-group members and Chinese people are unlikely to favor out-group members

(Ashforth & Mael 1989: 25; Warren et al. 2004: 357). Thus, being as in-group members is the prerequisite for two individuals to have further opportunity to develop closer guanxi.

It is the purpose of common bases to create familiarity to strangers so that their gap can be closed. After identifying the target person, to get familiar with him is important due to following reasons. Firstly, “two discrete individuals construct a basis of familiarity to enable the subsequent development of relationship” (Yang 1994). Secondly, familiarity plays a salient role in building trust between the two unrelated individuals and therefore facilitates the development of guanxi. Thirdly, Familiarity also creates barriers for other entrants who do not have the common basis with the key person.

Interestingly, although Chen and Chen (2004: 315) also asserted that two persons need to identify their common bases in order to build guanxi, they noted that familiarization identifies and creates guanxi bases. Chen and Chen (2004) divided the development process of guanxi into three stages: initiating, building, and using stage. At initiating stage the objective is to set up guanxi bases. Two unrelated individuals need to get familiar with each other in order to identify their common bases. Chen and Chen (2004) asserted that familiarity between two strangers is best done through personal and social conversations. The parties look for their commonalities through these personal and social conversations. The two persons can reveal their personal backgrounds such as working experience, home town, and educational experience so as to get familiar with each other. These commonalities are defined as common social identity bases (Chen & Chen 2004: 315). It seems that Chen and Chen (2004) indicated that identifying common bases is the consequence of familiarization, which is contradictable to the other researcher’s (Yang 1994) assertions.

In the present study the author asserts their indications are the same, that is, identifying common bases between two persons is the starting point in the early stage of building guanxi. Because it is the purpose of personal and social conversations is to help two

persons to find out their common bases and therefore enable further relationship development.

Due to the need for identifying the common bases it would be necessary for western businessmen to clear what are identifiable and preferable common bases in the Chinese context. Yeung and Tung (1996: 61) argued that common bases can be divided into two types: *ascribed* and *achieved*. Fan (2002b: 547) indicated similar classification of common bases.

The most common *ascribed* guanxi bases are 1) kinship and 2) locality (Yeung & Tung 1996; Fan 2002b). 1) Kinship refers to a person is one of the other persons family members (Yeung & Tung 1996: 61). Kinship common basis is also defined as blood basis because it only includes family members, relatives, and members of the same clan (Tsang 1998: 65). According to Yeung and Tung 1996: 61), Chu and Ju (1993) asserted that Chinese people prefer to help their family members rather than their friends. Thus, family guanxi is the most important among all kinds of guanxi (Tsang 1998: 65). Obviously, it is hard for western businessmen to have kinship common basis with the target person unless they get married with one of the target person's family or extended family members. 2) Locality refers to geographical identity such as village and province in China (Yeung & Tung 1996: 61; Fan 2002b: 547). If two Chinese people come from the same village or province, they feel strong affinity. As noted by Yeung and Tung (1996: 61), in China politics locality is the most important guanxi base. Since most of the westerners are not geographically affiliated with the target person, locality can rarely be identified as a common basis.

Achieved guanxi is built based on the past common experience and social interaction, such as studying in the same school, working in the same company, and serving in the same military unit (Yeung & Tung 1996: 61; Tsang 1998: 65; Fan 2002b: 547). If western businessmen have past common experience and social interaction with the target person, they have a possibility to identify achieved common bases.

Indeed, common bases play salient role in closing the gap between two individuals, however, it does not mean that foreign businessmen cannot have a chance to get familiar with the Chinese government officials if neither ascribed nor achieved guanxi bases are identified between them. Alternatively, they can use intermediary to close their gap with the target person. The use of intermediary is discussed in the next section.

Altercasting

Altercasting refers to utilizing intermediary to close the gap between two individuals who have neither ascribed nor achieved common bases (Yeung & Tung 1996: 61). The intermediary is a “third party” who is known by both of the persons. Academicians and practitioners have been aware of the importance of the “third party” in helping two unrelated persons to build guanxi. For example, Vanhonacker (2004: 52) asserted that *“it is necessary either to create or define a common basis for the relationship or to construct a relationship with the help of intermediaries who have a common basis with the guanxi target”*. Similarly, Pearce and Robinson (2000: 34) argued that guanxi can be built by bridging the gaps through the third person.

The use of intermediary to close the gap between guanxi seeker and the target person is underpinned by social capital theory. Social capital is defined as the “goodwill that is engendered by the fabric of social relations and that can be mobilized to facilitate action” (Adler & Kwon 2002: 17). Guanxi is also defined as social relations or ties, which may facilitate business conduction in China (Su & Littlefield 2001; Fan 2002b), thus, guanxi is a sort of social capital. Therefore, guanxi not only refers to specific ties between individuals but also refers to an entire network of a specific individual (*guanxi wang*). Since guanxi exists at individual level and is transferable (Ambler 1994: 74; Standifird & Marshall 2000: 22), guanxi seeker can use intermediary to introduce him to the target person if neither ascribed common bases nor achieved common bases are identified between them. *It is worth noting that intermediary can also be considered as a common basis as well because both of the unrelated persons are known by the third*

person (Fan 2002b: 547). Intermediary is defined by Fan (2002b) as acquired guanxi basis.

An example of using intermediary is as follows. If person A desires a guanxi with person C, with whom he does not know, he may seek out a person from his own guanxi network, B, who also has guanxi with the target person C, person A can ask person B to introduce him to person C. Thus, guanxi between person A and C is established with help of intermediary B.

If guanxi seeker cannot find an intermediary from his own guanxi network to introduce him to the target person, he can ask for help from an agency-type intermediary. “The relatively recent emergency of agency-type intermediaries whose *sole raison d’etre* is to promote profitable contacts and connections, i.e. guanxi with the right people” (Parnell 2005: 38). It is worthy to note that the third party in this situation is not necessarily involved in the business deal. The agency-type intermediary plays an important role in building the initial contacts between guanxi seeker and the target person (Parnell 2005: 42). If it is necessary guanxi seekers can pay an acceptable commission to the agency-type intermediary. Due to the majority of the foreign businessmen have neither ascribed nor achieved common guanxi bases with the target person, rely on an intermediary is vital for them to develop guanxi with the “right person” in the Chinese government (Yeung & Tung 1996: 62). It should be noting that representatives of foreign investors must spend a lengthy time in China in order to find out who has guanxi with the government officials (Alston 1989: 29).

Identifying some sort of similarities (group identification) and utilizing intermediary (altercasting) are often considered by academicians (Yeung & Yung 1996; Vanhoncker 2004) as two distinct mechanisms to close the gap between guanxi seeker and the target person. However, as intermediary can also be seen as a sort of common basis, altercasting and group identification can be considered as similar mechanisms.

To sum up, identifying some sort of common bases is the starting point for the future interaction between people who desire to develop their personal relationship at a deeper level. Therefore in the following, the most obvious and preferable guanxi bases are summarized (see table 6).

Table 6. Summary of common bases in China (Yeung & Tung 1996; Fan 2002b).

Ascribed guanxi bases	Achieved guanxi bases	Acquired guanxi bases
<ul style="list-style-type: none"> • Family • Kinships, in-laws • Same Locality 	<ul style="list-style-type: none"> • Classmates or alumni • Teacher-student • Colleague or superior-subordinate • Neighbour • In the same profession • Friend • Served in the same military unit, etc 	<ul style="list-style-type: none"> • Intermediary

3.1.3. Signaling and Packaging

The third step is *signaling*. After closing the gap familiar with the target person, guanxi seeker should ***deliver appropriate signals*** to the target person that he is interested in having close guanxi with him. It is the most important at this stage that the delivered signals do not raise the target person's suspicion. Vanhonacker (2004: 52) asserted that "signaling is best done in the context of a broader social event so that the target is not singled out". For example, guanxi seeker can invite the target person to have a company visit with other guests. Very importantly, in this case, the guests' social status should be similar to the target person. Otherwise, the target person would refuse the invitation due to losing face. The delivered signals should be carefully designed because inappropriate signals could easily destroy a possibility of close relationship or let the target person

loss his face. The last step is *packaging*. It is not wise to directly ask for a help or a favor from the target person after signaling. Vanhonacker (2004: 53) suggested that “[y]ou must carefully *package the instrumental objective, so as not to raise suspicion in the mind of the target that you seek a purely instrumental relationship*”.

So far, along with other academicians’ indications, Vanhonacker’s (2004) four consecutive stages of guanxi building in China have been discussed. Figure 4 illustrates the building stages of B2G guanxi in China. The four stages are *targeting*, *scouting*, *signaling* and *packaging*.

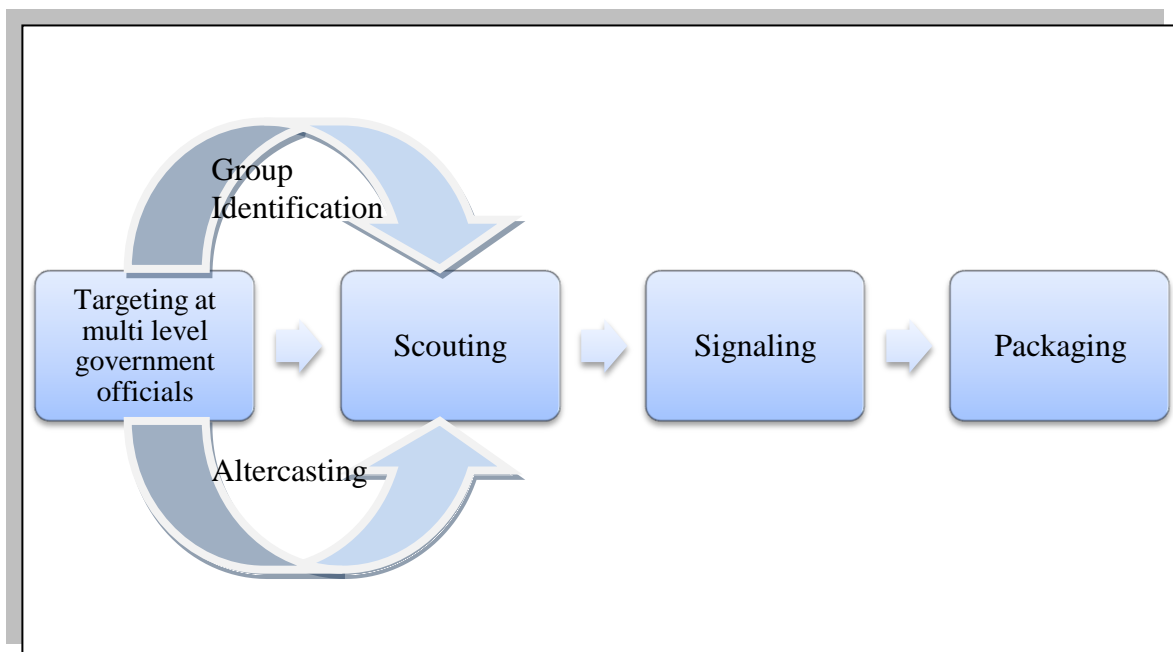


Figure 4. Building Stages of B2G guanxi in China.

The building process of B2G guanxi in China can be summarized in the followings. At the very beginning, foreign firms should identify the influential Chinese government officials, and then, identify common bases or use intermediary to start initial contacts with them. Later on, foreign firms should show the Chinese government officials they are interested in developing closer personal guanxi with them, and very importantly, they should carefully hide their instrumental objectives before deeper relationships are

developed. In the next section, some of the cultivating strategies which aim to develop closer B2G guanxi in China are explored.

3.2. Cultivating strategies of B2G guanxi

Although common bases and intermediary play a salient role in closing the gap between two unrelated persons, they are not sufficient for strong guanxi (Dunfee & Warren 2001: 192). It can happen that two persons have common bases, but the target person may still treat the guanxi seeker as an out-group member since the degree of closeness between them is low. In other words, they do not have “ganqing” or affection (Wong 1998: 223; Braendle et al. 2005: 393; Su, Mitchell & Sirgy 2006: 304). For example, person X and Y have familiar guanxi because they are former colleagues in an organization, but the degree of their closeness is low since they were not so familiar with each other at that time. Another example, although guanxi is established between two unrelated person A and C with the help of person B, both A and C should invest their time heavily to strengthen their guanxi because they belong to different guanxi networks and lack of affection. Thus, at this stage their guanxi is not close enough and therefore needs to be carefully cultivated in order to enhance their affection (Tsang 1998: 36). In other words, guanxi seeker should make great efforts to transform himself from the target person’s out-group member into in-group member (Chen & Chen 2004: 316), because out-group members are usually disparaged by in-group members since the latter would like to enhance their perceptions and self-esteem (in-group identification theory, Ashforth & Mael: 1989: 25).

The importance of cultivating strategies can be explained by the system of concentric cycles. As described earlier in chapter 2.3, with all relationships in mind, one can envisage a system of concentric cycles, using the ego as the reference centre, representing ego’s all Chinese social relations. The system of concentric circles also represents the degree of closeness of one’s social networks. It applies that the shorter distance between someone and the ego, the closer guanxi they have. It is the purpose of

the cultivating strategies to help the guanxi seekers to move closer to the target person in order to enhance their degree of closeness (See figure 5). For example, in figure 5, the system of concentric circles represents person X's all social relations. Person A and B have guanxi with X. The dotted lines imply that A has a closer guanxi with X. (Because line BX is lengthier than line AX). Thus, guanxi seeker (B) should firstly identify the position of himself in the target person (X)'s social relations, and then using cultivating strategies to move as closer as much to the target person (X) (See arrows in figure 5).

Practicing social interaction, holding informal discussion, gift-giving, and building trust serve to cultivating guanxi (Xin & Pearce 1996; Yau et al 2000; Chen & Chen 2004). It is worth pointing out that those cultivating strategies are not exclusive, but they are often the most of mentioned strategies by academicians and practitioners. In the next, the four main cultivating strategies are discussed.

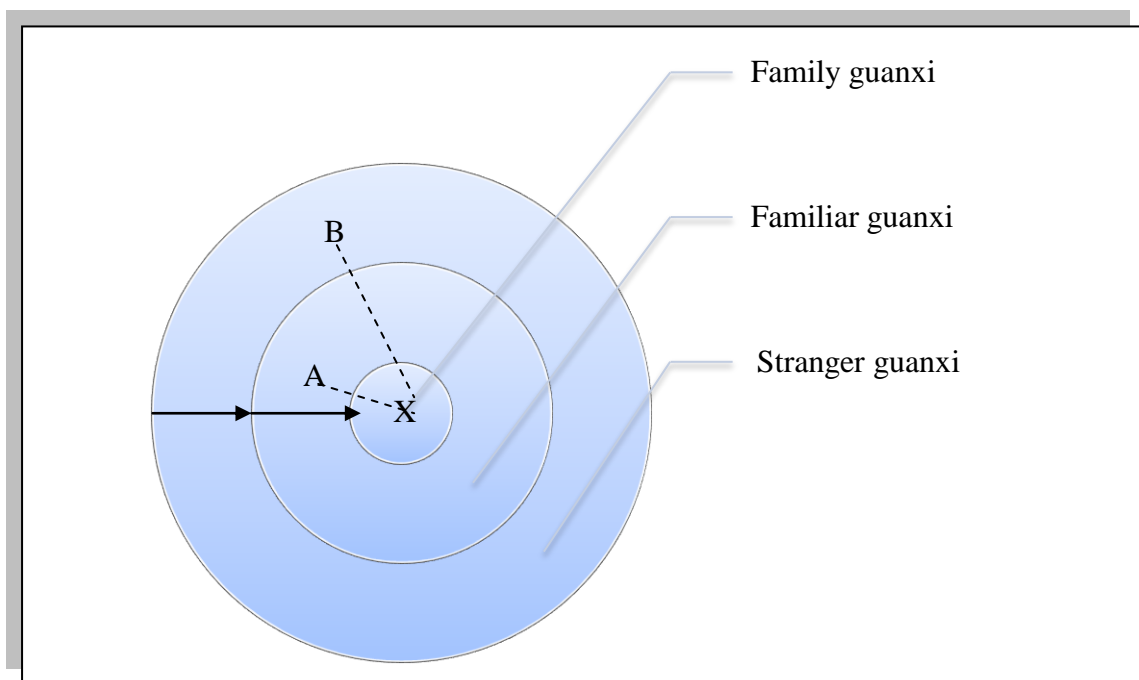


Figure 5. Chinese social Relations (Hwang 1987; Yang 1993; Tsang 1998; Fan 2002a, 2002b; Chen & Chen 2004).

3.2.1. Practicing social interaction and holding informal discussion

It is the purpose of *social interaction* to carry out “feelings of familiarity, personal recognition, friendship, rapport, and social support” (Yau et al. 2000: 21). Social interaction can enhance businessmen’s influence over the other person. Good examples of social interaction are hosting appropriate dinner (Yau et al. 2000: 21), and inviting the other person to birthday banquets (Jacobs 1982; Yang 1994; Yau et al. 2000: 21) and celebrations of marriage (Jacobs 1982; Yang 1994), and so on. These social-oriented activities can help western businessmen to increase interaction and exchange sentiments with the Chinese government officials.

According to Yau et al. (2000: 22), one way to strengthen guanxi is to develop personal relationship between the two persons at a deeper level. A deeper personal relationship can be achieved by *holding informal discussion*. During the information discussion, the two persons can reveal their personal issues such as secrets and inner feelings, and show frankness to each other. It is worth noting that personal secrets and inner feelings are not the exclusive personal issues, which are suitable to discussion during informal discussion. Informal discussion in a deeper level is a sign of your trust and commitment.

The reason why the author discusses the two cultivating strategies under the same subchapter is because the implementation of practicing social interaction and holding informal discussion can sometimes overlap. For example, dinner time in China is lengthy and during that time the two persons can reveal their personal issues such as personal secrets and their inner feelings.

To sum up, since friendship leading to business is more preferable than business leading to friendship in China, without frequent social interaction and informal discussion, affection cannot be cultivated between two persons and their initially built guanxi is more distant (Xin & Peace 1996: 1645; Tsang 1998: 68).

3.2.2. Gift-giving

Western businessmen think that giving bribes is a quick way to establish guanxi due to the rampant corruption in China (Tsang 1998: 66). Bribe is enough for a one-off basis relationship, but it certainly cannot buy a true, healthy, and long-lasting guanxi (Tsang 1998: 66). It should be noting that gift-giving is no more equivalent to corruption in China (Ambler 1994). Gift-giving is a way to show respects to the other Chinese person and therefore enhance social bonds. “Guanxi” seeker can use gift-giving as one of the initial means to develop and maintain a long-term relationship with the target person (Xin & Pearce 1996: 1645; Tsang 1998: 66; Yau et al. 2000: 22; Wong et al. 2007: 878).

Western businessmen need to understand that the art of gift-giving is related to two issues, that is, *when to give the gifts and on what occasions*. The proper time would be important holidays such as Chinese spring festival, the dragon boat festival, the mid-autumn festival, the lantern festival, and other occasions such as birthdays, children entering to high school, and so on (Yongqiang & Zhilong 2006: 81).

Even though gift-giving is a sign of gaining advantage from others in Chinese context, it is wise that gift givers do not show their objectives to the target person. It is very important that western businessmen should not perceive gift-giving as a way to influence over the others’ decision-making, because it not only results in short-term benefit (Tsang 1998: 66), but it could be also considered as bribery (Yau et al. 2000: 22).

3.2.3. Building trust

Liu, Li, Tao and Wang (2008: 442) argued that the time length of a relationship in China is positively related to goodwill trust and competence trust. According to Nooteboom (1996: 990), trust in western literature concerns a partner’s ability to perform according to agreements (competence trust) or his intentions to do so (goodwill

trust). Goodwill trust is defined as “the expectation that some others in our social relationship have moral obligations and responsibility to demonstrate a special concern for others’ interests above their own” (Das & Teng 2001: 256). Competence trust is based on the extent to which one party believes that its exchange partner has the required professional expertise to perform the job effectively so as to achieve relationship benefits.

In China, a person is trustworthy when he or she is sincere, credible, honest, reliable, and capable. Trustworthy in China primarily refers to the sincerity than the ability of the person. Sincerity-based trust corresponds to trust in goodwill trust in western literature (Chen & Chen 2004: 313-314). Yang (2001a, 2001b) asserted sincerity refers to a person has the true intention to enter and stay in the relationship and has your best interest at heart. Sincerity is manifested by following social norms of *guanxi*. “Deliver what you have promised” and “Do not cheat” are good ways to show a person’s sincerity in China. Thus, as western B2G *guanxi* seekers intend to enter and stay in the relationship he has to show his sincerity to the identified officials. Although sincerity plays a more salient role in judging one’s trustworthiness in China, ability is nevertheless important. Ability-based trust corresponds to competence trust. When the English term, ability-based trust, is translated into Chinese, it means a person is trustworthy and usable. (Chen & Chen 2004: 314)

To sum up, according to Chen & Chen (2004: 314), “the ability-based trust is domain specific whereas the sincerity-based trust is more broadly related to the person as a whole”. Since trust is one of the judgements of a long-lasting *guanxi* between individuals, sincerity-based trust plays a more salient role in building close *guanxi* in China.

So far, building stages and cultivating strategies of B2G *guanxi* have been discussed. In conclusion, western firm’s B2G *guanxi* can be developed at either surface or deep level. Perhaps, many foreign businessmen have not perceived any significant benefits of having B2G *guanxi* is mainly because their *guanxi* are at surface level. In other words,

they have consciously built some sort of relationships with the officials, but they have not yet tried to improve them. To further improve B2G guanxi, foreign firms and their managers are suggested to frequently practice social interactions and hold informal discussions, occasionally giving appropriate gifts, and consciously build trust with the identified officials. In reality, guanxi is far more complicated and therefore is hard to find out all its variables. Thus, the four cultivating strategies are not exclusive but they are the most of mentioned strategies by academicians.

3.3. Potential challenges

Dissimilar in communication styles would lead to misunderstandings between western guanxi seekers and the Chinese government officials (Yau et al. 2000). According to Taylor and Osland (2005: 220-221), communication styles around the world can be divided into five groups: 1). high vs. low context communication, 2). direct vs. indirect verbal styles, 3). personal-oriented vs. status-oriented verbal styles, 4). self-enhancement vs. self-effacement verbal styles, and 5). succinct vs. elaborate verbal styles. In the next, the five groups of communication styles are discussed.

High versus low context communication. Low context communication relies on explicit verbal messages to convey intention or meaning. In contrast, high-context communication tries to transmit intention or meaning via “the context (such as social roles and positions)” and “the non-verbal channels (such as pause, silence, tone of voice)”, thus, the listener in high-context culture is expected to “read between the lines” of indirect messages (Taylor & Osland 2005: 220).

Direct versus indirect verbal styles. The styles are differentiated by “the extent to which intentions are revealed by tone of voice and the straightforwardness of the content message” (Ting-Toomey 1999: 103). In the direct communication style, speakers deliver their intentions in forthright tone of voice. In indirect communication style,

conversely, the meanings of the speakers' statement cannot be read directly (Taylor & Osland 2005: 220). Failure to understand difference between direct and indirect communication style allows misinterpretation (Taylor & Osland 2005: 220). People who prefer direct style often perceive the indirect communication style is "insincere and untrustworthy". On the other hand, people from a culture preferring indirect communication style may perceive those who use direct style are blunt because indirect communication style is characterized by unwillingness to say "no" directly or to force others into that position (Ting-Toomey: 1999).

Personal-oriented versus status-oriented verbal styles. Personal-oriented communication style is "individual centered and emphasizes the importance of informality and role suspension. On the other hand, the status-oriented communication style is role centered and emphasizes formality and larger power distance (Ting-Toomey 1999: 106). Power distance is the extent to which a society to accept the fact that power in institutions and organizations is distributed unequally (Hofstede: 1980). The third type of communication style plays a salient role in interacting between western people and Chinese people because it determines who should talk to whom in a hierarchical society. Ignoring the difference between person-oriented and status-communication style would lead to uncomfortable interaction and misinterpretation (Taylor & Osland 2005: 221).

Self-enhancement vs. self-effacement verbal styles. Self-enhancement communication style emphasizes individual's own accomplishment and abilities. In contrast, self-effacement communication style emphasizes the importance of humbling oneself via verbal restraints, hesitations, modest talk, and the use of self-depreciation concerning one's effort and performance (Ting-Toomey 1999: 107).

Succinct versus elaborate verbal styles. This communication style refers to the amount of talks with which people feel comfortable (Taylor & Osland 2005: 221). The speech quantity around the world ranges from succinct (Low quantity) to exacting (just the right words) to elaborate (high quantity). Understatements are acceptable, and pause and

silence are meaningful in countries in where succinct is preferred. Table 7 summarizes different communication styles and their main characteristics.

Table 7. Summary of cultural communication styles (Taylor & Osland 2005: 220).

Communication style	Major characteristics
High versus low context	Meaning in conveyed in context versus explicit verbal message
Direct versus indirect	Explicit versus implicit, camouflaged message
Personal- versus status-oriented	Emphasis on unique, personal identities versus honoring prescribed power based membership identities
Self-enhancement versus self-effacement	Emphasis on boasting about accomplishments and abilities versus humility and self-depreciation
Succinct-exacting-elaborate	Low to moderate to high quantities of talk

The communication styles in Finland and China are greatly different in all of the five aspects. Figure 6 illustrates the differences. In Finland, the communication styles are low-context, direct, and exacting. In China, in contrast, high-context, indirect, and succinct are preferred communication styles. In addition, status is needed to show power and social position in larger power distance and masculine cultures, on the other hand, status needs are low in small power distance and feminine countries, especially Scandinavia countries (Mooij 2005: 175-183). Thus, in China status-oriented communication style is more favored (PDI scores: Finland=33, China=80; MAS scores: Finland=26, China=66). Besides, self-enhancement verbal style is mostly found in individual societies, self-effacement verbal style, in contrast, is preferred in collectivism cultures. Thus, in Finland, self-enhancement style is favored, conversely, Chinese prefer self-effacement verbal style (IDV scores: Finland=63, China=20).

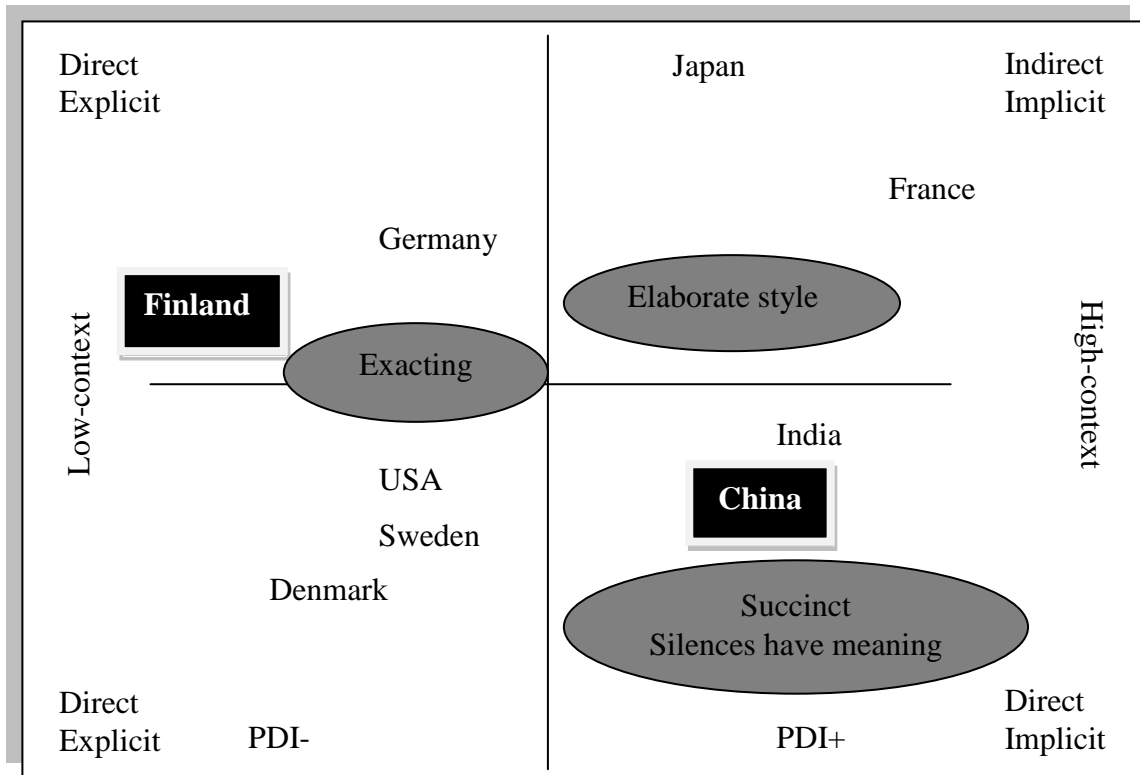


Figure 6. Interpersonal communication styles (Source: Gudykunst & Ting-Toomey 1988 adapted by De Mooij 2004; PDI Data from Hofstede 2001).

Very importantly, not all of the five communication styles in the present study are considered as noteworthy potential challenges. Undoubtedly, *direct versus indirect verbal style* differences serve as a significant barrier for Finnish persons to be empathetic in China. Officials in China are not likely to straightforwardly express their preferences. Finnish (direct verbal style) may find difficulties to anticipate Chinese officials' (indirect verbal style) desires and goals. Furthermore, the direct vs. indirect verbal styles have a negative influence for Finnish people to fully implement reciprocity in China as there is a highly positive correlation between empathy and reciprocity. *High vs. low context communication style* difference would also lead to difficulties for Finnish people to build and cultivate B2G guanxi as Finnish may fail to read the messages which are conveyed through context and non-verbal channels such as pause and silence. *The other three groups of verbal style* are not considered as main potential challenges because they have trivial influence to the criteria to a true B2G guanxi.

3.4. Summary of the theoretical framework

So far, the main issues in the present study have been discussed in Chapter 2 and 3. In chapter 2, the backgrounds, definition, classification, benefits of guanxi are presented. Additionally, criteria of a true, healthy, and long-lasting B2G guanxi are discussed as well. In chapter 3, the main issues relating to how to build and cultivate B2G guanxi in China and its potential challenge from western firm's perspective. In order to provide the reader a clear understanding of the linkage between different concepts, a comprehensive theoretical framework of the present study is formulated (see figure 7).

The theoretical framework is divided into two parts. The left side of the framework indicates the building stages and cultivating strategies of B2G guanxi in China. In the middle of the left part, four consecutive steps 1) **targeting multi level government officials**, 2) **scouting**, 3) **signaling**, and 4) **packaging** represent the building stages of B2G guanxi in China. **Group identification** (upper curved right arrow) and **altercasting** (lower curved right arrow) are two alternative mechanisms at scouting stage to close the gap between western businessmen and the Chinese government officials identified at targeting stage. **Building trust**, **practicing social interaction**, **holding informal discussion**, and **gift-giving** are the most of mentioned but not exclusive cultivating strategies of guanxi. It is the purpose of these cultivating strategies to improve B2G guanxi. Along with other strategies, western businessmen are suggested to carry out the four cultivating strategies after closing the gap with the Chinese government officials.

The right side of the framework illustrates that bonding, trust, empathy, and reciprocity are interrelated criteria of a true, healthy, and long-lasting B2G guanxi. In other words, without achieving the four criteria, B2G guanxi between western guanxi seekers and the Chinese government officials may only exist at surface level. The unique practice of these factors can be achieved in the use of the four cultivating strategies. In addition, the dotted lines demonstrates that the potential challenge of building and cultivating a true, healthy, and long-lasting guanxi is communication styles differences (direct vs. indirect verbal style and high vs. low context communication style).

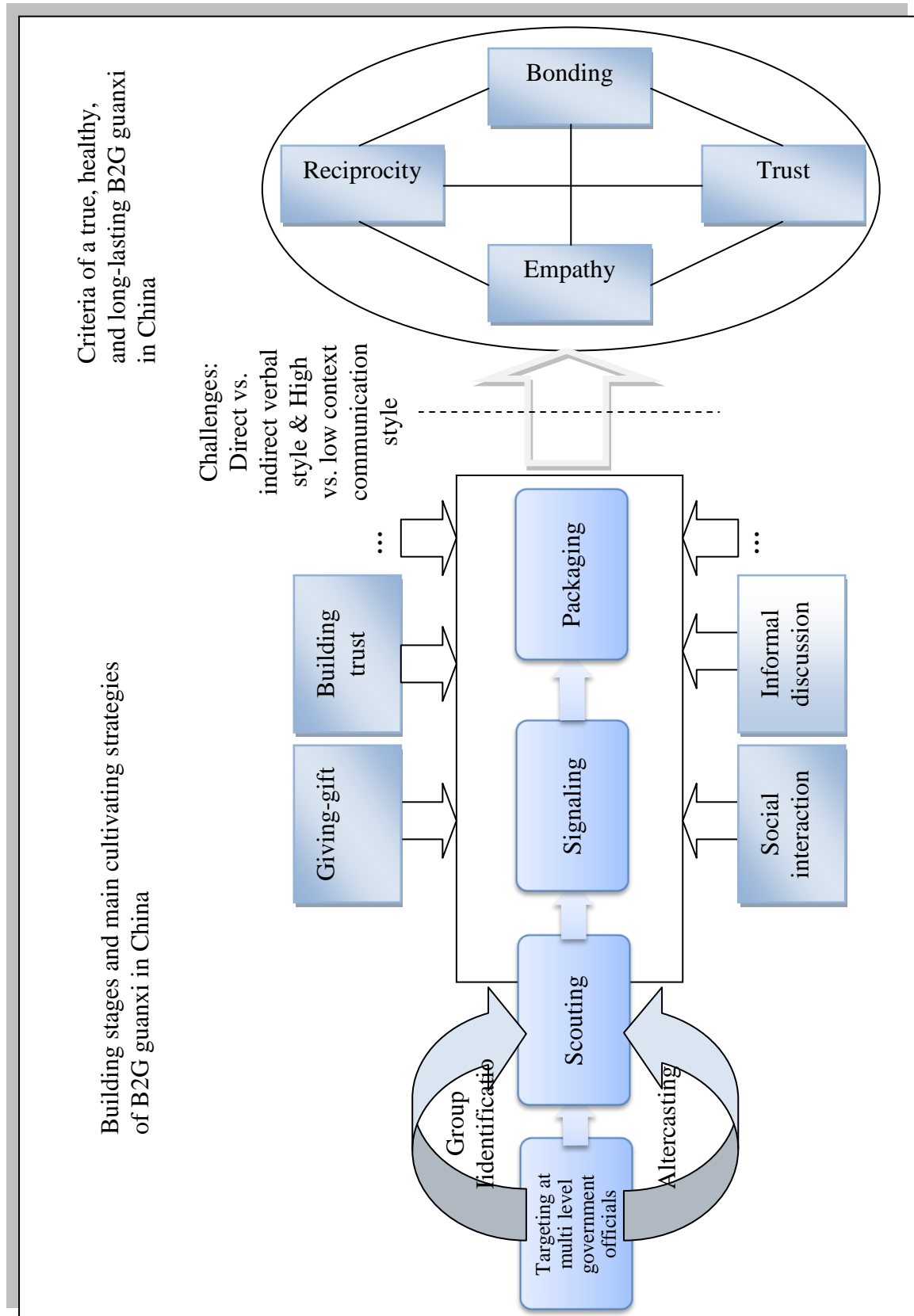


Figure 7. Theoretical framework.

4. RESEARCH METHODOLOGY

The purpose of the methodology section is to explain the research methodology used in the present study. Research approach and method, case study research strategy and design, data collection, and method of data analysis are discussed in this section. In addition, validity and reliability of the study is also discussed in this chapter.

4.1. Research approach and method

For international business research, there are two research approaches which can be used to conduct a research phenomenon: deduction and induction research approach. The extent to which the author is clear about the theory at the beginning raises an important question concerning the general research approach of the study. That is whether the author should use the *deductive* approach, in which the author develops a theory and hypothesis and design a research strategy to test the theory and hypothesis, or the *inductive* approach, in which the author would collect data at the beginning and theory is developed as a result of data analysis (Saunders, Lewis & Thornhill 2007: 117).

Deductive approach involves the development of a theory, thus, the data collection would follow the theory. In contrast to deductive approach, inductive approach requires the researcher to make sense of the collected data at the first so as to formulate theory, in other words, the theory would follow the data (Saunders et al. 2007: 117-118). The present study adopts deductive approach since the development of theoretical framework prior to collecting empirical data.

Since there are a number of ways to collect and analyze the data, the author needs to select the most suited data collection techniques, which align with the main research question and research objectives. The terms *quantitative* and *qualitative* are used

widely in business and management research to differentiate both data collection techniques and data analysis procedures. The aim of quantitative research method is to measure the research phenomenon by analyzing the data statistically. Quantitative research is a systematic research method, thus it has a structured approach. This research method has little flexibility, and it has a high ability to replicate the result. Quantitative research method is largely used when answering the main research question such as how much, how many, and how often. Qualitative method, in contrast to quantitative research method, is commonly applied when answering questions such as what, why, and how. The flexibility of using qualitative method is higher than quantitative method. This flexibility allows the researcher to pursue new areas of interest. The researcher can have a chance to get deep insight into the research phenomenon since the researcher is closely involved with the respondents. (Saunders et al. 2007)

In most of priori studies, the qualitative method was used to explore how to build and cultivate B2G *gaunxi* in China due to two reasons. Firstly, *gaunxi* is a complex phenomenon and its variables cannot be controlled. Secondly, there are limited studies in this field and therefore there is a need to extend and deepen this topic through a qualitative research. The author in this study chooses qualitative method not only because most of existing studies adopt qualitative method but also due to the present study attempts to answer “how” question and requires collecting the data in a flexible way.

4.2. Case study research strategy and design

The commonly applied research strategy includes: experiment, survey, archival analysis, history, and case study (Yin 2003: 5). A case study is an empirical research method, which examines a contemporary phenomenon in a real life situation; when the boundaries between phenomenon and the context are not clearly evident; and in which multiple sources of evidence are used (Yin 2003: 13).

Case study has its unique strengths and weaknesses. On one side, compared to other strategies, case study method has a great deal of advantages. First of all, case study helps in examining the vertical depth of the research phenomenon. As case study has to do with an extensive review of existing historical materials and records it is often regarded as similar to history method. However, case study can provide researchers a possibility of direct observation and interaction, which certainly help to deepen the understanding of the research phenomenon. Secondly, it can provide new insights into the phenomenon under investigation. Last but not the least, case study is advantageous in investigating a phenomenon in which constitute of unquantifiable concepts and variables. (Ghauri 2004: 112)

On the other side, case study strategy has also been criticized. Firstly, case study has long faced criticism as its results cannot be scientifically generalized. Secondly, case study research takes a lengthy time and produces massive documents. Thirdly, the degree of the accuracy of the case study results can be negatively influenced by any of the researcher's bias and mistakes. (Yin 2003: 10-11)

To sum up, case study strategy has a great deal of advantages and disadvantages. However, if the author is aware of the negative side of case study, its validity and reliability can be increased. (Yin 2003)

Yin (2003: 5) argued that the choice of research strategy depends upon three factors: 1) research question, 2) the need of control of behavioral event, and 3) the degree of focus on contemporary as opposed to historical events. Table 8 displays these three conditions and shows how each of them is related to the five major research strategies.

The reasons for choosing case study as the research strategy in the present study are discussed in accordance with above three factors. Firstly, the research question is one of the most important criteria to choose research strategy. According to Yin (2003: 5) and Saunders et al. (2007: 139), “how” and “why” questions are best suited for case study research. In the present study, *it is the main purpose of the present study to explore*

how to build and cultivate business to government (B2G) guanxi in China (PRC) and explore the challenges from western firm's perspective. Since the present research answers “how” question, case study strategy is suited. Secondly, Yin (2003: 5) asserted that control over behavioural events is not necessary in the case study method. In the present study control over behavioral events is not possible as it concerns the complex concepts of guanxi and its development stages and cultivating strategies. Thirdly, the present study focuses on contemporary event. Thus, the present study suits for case study research strategy.

Table 8. Relevant situations for different research strategies (Yin 2003: 5).

Strategy	Form of Research Question	Requires Control of Behavioral Events?	Focuses on Contemporary Events?
Experiment	How, why?	Yes	Yes
Survey	Who, what, where, how many, how much?	No	Yes
Archival analysis	Who, what, where, how many, how much?	No	Yes/No
History	How, why?	No	No
Case study	How, why?	No	Yes

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Yin (2003) distinguishes between four case study strategies based upon two discrete dimensions: 1) *single case vs. multiple case* and 2) *Holistic case vs. embedded case*. Figure 8 displays the combined four case strategies in a matrix. The first dimension, single case vs. multiple case, refers to the number of cases are under studied. There is no upper or lower limit to the number of cases to be studied. According to Yin (2003: 46-47), single and multiple cases study have their strengths and weakness. Firstly, in contrast to single case study, multiple cases study requires extensive resources and time. Secondly, multiple cases study has a higher degree of results generalization then single case study. Thirdly, a single case study design is appropriate if the case is unusual or rare, critical, and revelatory.

In the present study how to build and cultivate B2G guanxi and its challenges are explored through a single case study. The choice of single case study should have a strong justification so as to achieve its unique strengths (Yin 2003). A single case study is used where it represents a critical case or, alternatively, an extreme or unique case (Saunders et al. 2007: 140). Conversely, a single case study may be selected because it is representative or because it provides you with an opportunity to observe and analyze a phenomenon that few have considered before (Saunders et al. 2007: 140). In addition, a single case study is used because the same case is studied at two or more different points in time in order to see how certain conditions change over time (Yin 2003: 42).

In existing studies, limited studies provided insights into building and cultivating B2G guanxi and its potential challenges in China, thus, a single case research strategy suits for the present study to analyze this phenomenon which was rarely studied.

Whether conducting single or multiple case studies, the tricky question is how to select the cases. According to Ghauri (2004: 112-113), following three criteria have to be considered in selecting the case(s). Firstly, the choice of the cases should be *based on the main research question or objective*. Secondly, *time availability, financial resources for travelling, personal contacts and other practical matters* greatly influence the selection of the case(s). Thirdly, the *type of organization* (MNC or SME) should be taken into account. Additional criterion to select the case company must be fulfilled in the present study. The decentralization of Chinese government would lead to some changes of the practice of guanxi, thus, the case company in the present study should be one that has *recently* broken into Chinese market. In doing so, the empirical data is more compelling and confidential to explore contemporary issues relating to how a foreign firm has tried to build and cultivate its B2G guanxi and explore its potential challenges.

Bear in mind above criteria, the case company in the present study must be *a Finnish firm that has recently entered into Chinese market and it is geographically and inexpensively accessible for the author to do the empirical investigation*.

The second dimension, holistic vs. embedded case, refers to the units of analysis (Saunders 2007: 140). The meaning of holistic and embedded can be best explained by an example. An author has chosen an organization as the case company. If the author's research is concerned only with the organization as a whole then the author is treating the organization as a holistic case study. On the other hand, if the author wishes to collect data from subunits within the organization, perhaps department, work groups or individuals (see the ovals in Figure 8, which represent the subunits in the organization), then the case will inevitably involve more than one unit of analysis.

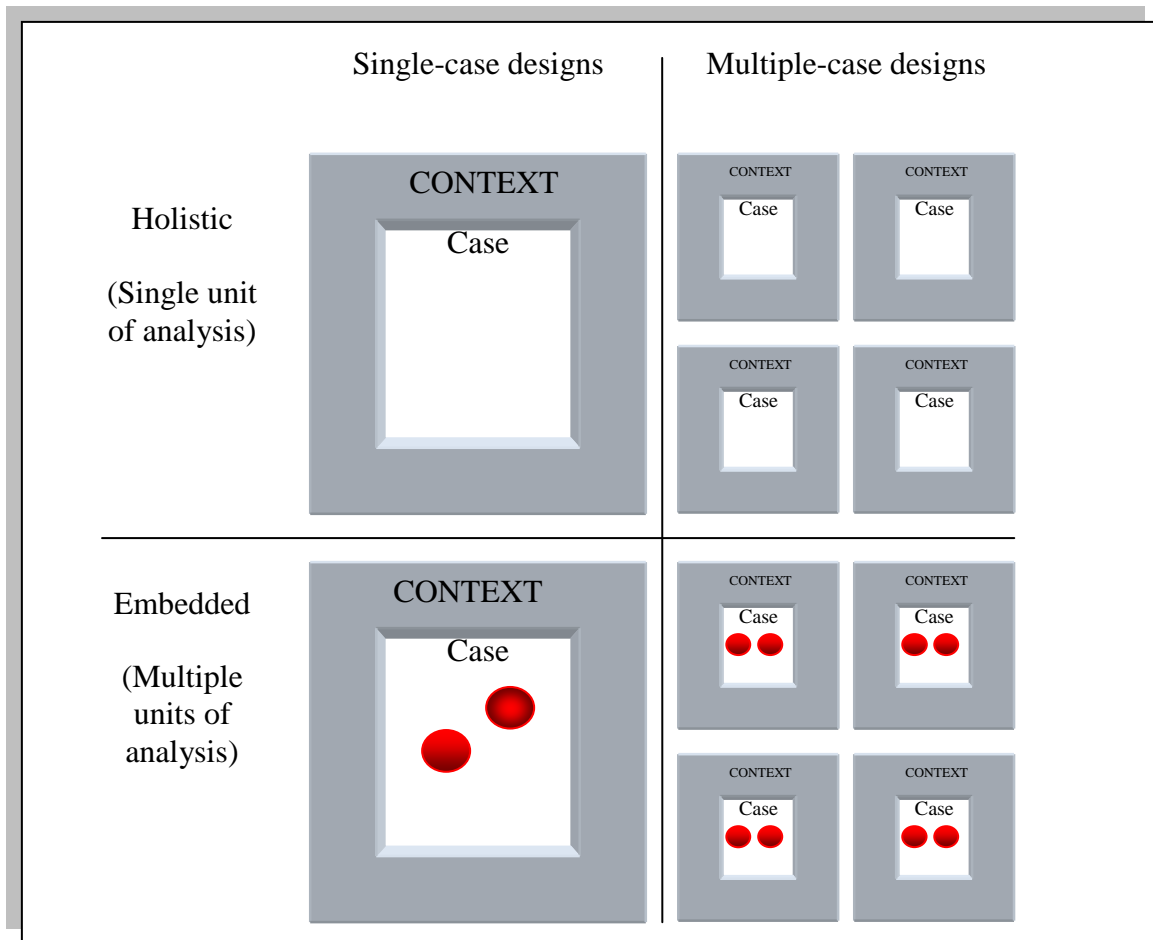


Figure 8. Basic types of designs for case studies (Yin 2003: 40).

The two variations of single case study (holistic single case study & embedded single case study) both have their advantages and disadvantages. Holistic single case study is advantageous when no subunits can be identified or when the relevant theory underlying the case study is itself of a holistic nature. The strength of embedded single case study is that the subunits can often add significant opportunities for extensive analysis, enhancing the insights into the single case. There are two major problems relating to holistic single case study. Firstly, it may be conducted at an abstract level and therefore lacking any clear measures or data. Secondly, the entire nature of the case study may be dramatically changed. The main pitfall of using embedded single case study is that the focus of the empirical study is only at subunit level and it fails to return to the larger unit of analysis (Yin 2003: 45-46). For multiple cases, each individual case

can also be holistic or embedded (Yin 2003: 52), which have similar advantages and disadvantages compared to the two variations of single case study.

In the present study, the main unit is the case company as a whole. Data is mainly collected from the individuals who work at managerial positions in the case company. These individuals are smaller units. Thus, the present study should be considered as an embedded single case study.

4.3. Data collection

Empirical data of case study can be collected from a variety of sources. According to Yin (2003: 83), the most commonly used six sources of evidence are: documentation, archival records, interviews, direct observation, participant-observation, and physical artifacts. Each of them has its own unique strengths and weaknesses. The choice of sources of evidence in case studies should follow the principle of triangulation (Yin 2003: 97). Triangulation refers to the collection of data through different methods or even different kind of data on the same phenomenon (Ghauri 2004: 115). The main advantage of triangulation is that it can produce a more complete, holistic and contextual portraits of the object under study (Ghauri 2004: 115). In the present study, interviews and documentation are the sources of evidence.

Three persons were interviewed from the single case company. Their personal backgrounds are shown in table 9. In the next, the criteria for choosing the interviewees are discussed. First of all, the selected interviewees had been directly involved in planning and establishing the case company's China operation. Secondly, the interviewees should have been working at managerial position in the case company. Two interviews with A and B were originally arranged. The first interview with A was a face-to-face interview and it took place at the case company's headquarter at Vantaa on 1 July, 2009. This interview lasted approximately 45 minutes. The second interview

with person B was done through a interview guided questionnaire and the data was collected through email on 15 Sep, 2009. It is noteworthy that due to interviewee B *did all the preliminary registration and has been responsible for the case company's administrative work* and therefore she has been working at managerial positions although her title is Executive Assistant. The data from A and B were analyzed and interpreted. Later on, in order to have a full picture, the last face-to-face interview with the one of the Vice Presidents of the case company was arranged at Vaasa on 4 Nov, 2009 and it took roughly 35 minutes. The two face-to-face interviews with A and B were recorded using a recording device. The answers of interviewee B has saved to a word file. The author wrote down all three interviewees' responses word by word as notes to analyze the data. Thus, it is possible for readers to check and review the interview responses to obtain further information. It is worth pointing out that the questions which the author asked interviewee A and B were partly different compared to those questions which were responded by interviewee C. The questions were different because the author wanted to have further and detailed information. Nevertheless, the issues which were covered in the two questionnaires were the same. Appendix 2 illustrated the questions that were responded by A and B. Appendix 3 displays the questions which were answered by interviewee C. The three interviews are the primary data and the annual report is the secondary data.

Table 9. Personal background of three interviewees.

Interviewees	Gender	Nationality	Location	Position	Year joined company
A	Male	Finnish	Vantaa, Finland	Marketing manager	
B	Female	Chinese	Lu'an, China	Executive assistant	2007
C	Male	Finnish	Vaasa, Finland	Vice President	2003

4.4. Method of data analysis

Data analysis consists of examining, categorizing, tabulating, testing, or otherwise recombining both quantitative and qualitative evidence to address the initial propositions of a study (Yin 2003: 109). The discussions of the method of data analysis are related to general analytic strategy, specific techniques, and data display.

Analyzing case study data is difficult due to there are no well-defined strategies and techniques (Yin 2003: 109). Nevertheless, every case study should strive to have a *general analytic strategy*, which helps the researcher to know what to analyze primarily and why. Three analytic strategies are: relying on theoretical propositions, thinking about rival explanations, and developing a case description (Yin 2003: 111-115). In the present study, although there are no theoretical propositions, a theoretical framework is presumed. *Relying on theoretical framework* is chosen in the present study as it has shaped the data collection plan and acts as guidance to the theoretical study and therefore has given the priorities to the relevant analytic strategies.

Any of the analytic strategies can be used in practicing five *specific techniques* for analyzing case studies: pattern matching, explanation building, time-series analysis, logic models, and cross-case synthesis (Yin 2003: 109). Appropriate choices of those techniques can increase internal and external validity of the case study (Yin 2003: 115). In the present study the choice of analytic strategy is *pattern matching*. Saunders (2007: 489) discusses pattern matching, where several pieces of information from one or several cases are related to a priori assumptions. Though there are no assumptions, the empirically concluded “pattern” in this study is compared with the theoretical framework. Pattern matching is selected not only because it is one of the most desired techniques (Yin 2003: 116) but also due to the theoretical framework serves as guidance to explore how a Finnish firm build and cultivate its B2G guanxi in China and explore its potential challenges.

Besides, the author directly cites the interviewees' responses and uses *an array of tables and figures* during data analysis so as to *display the data*. In doing so, a chain of evidence is maintained and the actual evidence is to be found.

4.5. Validity and reliability of the study

Four tests, construct validity, internal validity, external validity, and reliability have been to judge the quality of the study (Yin 2003: 39). Table 10 summarizes the definition of the four tests and table 11 displays the recommended case study tactics, as well as the phase of research when the tactic is to be used.

Table 10. Summary of the definition of the four tests (Yin 2003 adopted from Kidder & Judd 1986: 26-29).

Tests	Definition
Construct validity	Establishing correct operational measures for the concepts being studied
Internal validity (for explanatory or causal studies only, and not for descriptive or explorative studies)	Establishing a causal relationship, whereby certain conditions are shown to lead to other conditions, as distinguished from spurious relationships
External validity	Establishing the domain to which a study's findings can be generalized
Reliability	Demonstrating that the operations of a study- such as the data collection procedures-can be repeated, with the same result

Table 11. Case study tactics for four design tests (Source: Yin 2003: 34, adopted from COSMOS Corporation).

Tests	Case study tactic	Phase of research in which tactic occurs
Construct validity	<ul style="list-style-type: none"> • Use multiple sources of evidence • Establish chain of evidence • Have key informants review draft case study report 	<ul style="list-style-type: none"> • Data collection • Data collection • Composition
Internal validity	<ul style="list-style-type: none"> • Do pattern-matching • Do explanation-building • Address rival explanations • Use logic models 	<ul style="list-style-type: none"> • Data analysis • Data analysis • Data analysis • Data analysis
External validity	<ul style="list-style-type: none"> • Use theory in single-case studies • Use replication logic in multiple-case studies 	<ul style="list-style-type: none"> • Research design • Research design
Reliability	<ul style="list-style-type: none"> • Use case study protocol • Develop case study database 	<ul style="list-style-type: none"> • Data collection • Data collection

The author has tried to improve the validity of the present study in accordance with the case study tactics which are illustrated in table 11. It is worthy note that the present study is an explorative study and therefore the internal validity plays a less salient role in increasing the overall validity of this study, even though pattern matching and explanation building are relevant in data analyzing of the present study. Thus, **construct** and **external validity** were mainly concerned to improve the validity of the present study. First of all, the empirical data were collected from multiple sources (interviews and documentation) so as to increase construct validity of the research. Secondly, the author sent the report to the interviewees to check and review in order to increase the construct validity of the research. Thirdly, according to Yin (2003: 37), in case studies, instead of statistical generalization, the result should be analytically generalized. In analytical

generalization, the investigator is striving to generalize a particular set of results to some broader theory. In the present study the analysis of the data is interpreted on the basis of an established theoretical framework. Theories about building and cultivating B2G guanxi would be then the domain to which the results could later be generalized. In that sense, some level of analytical generalization is achieved.

However, the present study has faced a number of threats to its validity. Firstly, the author did three interviews. If the author had conducted more interviews, the validity of the study would have increased further. Secondly, the author used annual report of the case company as the only source of evidence in addition to interviews. There is no doubt that an increased number of documentations and sources of evidence would have resulted in higher degree of validity. Thirdly, the external validity of present study would be stronger if the author replicated more studies. Lastly, the validity of the study is threatened due to the interviewees mainly answered the questions according to their memories.

The objective of high reliability is to be sure that if a later investigator followed the same procedures as described by an earlier investigator and conducted the same case study all over again, the later investigator should arrive at the same findings and conclusions (Yin 2003: 37). To some degree the present study is reliable because the author attached the questionnaire in appendix and explained the procedure of data collection in chapter 4.3. Other researchers would have had the same results if they had asked the same questions and followed the procedure to collect the data.

On the other hand, the reliability of the present study is threatened as well. Firstly, the interviewees answered the questions based on their memories and the author subjectively interpreted the data. If the interviewer and interviewee changed, the results of the research would have changed. Secondly, any biases and mistakes which made by another researcher may lead to different empirical findings.

5. RESULTS AND ANALYSIS OF THE EMPIRICAL STUDY

The focus of this chapter is to analyze and interpret the data in order to empirically explore how a Finnish firm has tried to build and cultivate its B2G guanxi in China and explore its potential challenges.

5.1. The formation, facts and internationalization of the case company

The Switch was chosen as the case company. Three companies-Rotatek Finland Oy in Lappeenranta, Verteco Oy in Vaasa and Youtility Inc. in Hudson-were acquired by the parent company The Switch Engineering Oy in Nov, 2006 under the name of Runsortech Oy. The Switch is a pioneer in tapping into the business potential of renewable energy resources. Its business areas are wind power and other emerging businesses, including industrial facilities, variable speed gensets, and solar and fuel cell applications. The Switch's expertise covers control systems, power electronics and electrical machines. The customer use The Switch state-of-the art products and systems as part of their own machines or systems in wind turbine and other renewable energy applications or energy conserving applications. The Switch consists of the mother company, which is The Switch engineering and three major divisions, 1) The Switch Electrical Machines, 2) The Switch High Power Converters, and 3) The Switch Controls and Converters. (The Switch's homepage)

The Switch Electrical Machines, located in Lappeenranta, Finland contributes to The Switch capabilities in the manufacture of adjustable speed drives for industrial applications, and in the production of rugged, reliable motors. These machines are typically used to drive vacuum pumps in the pulp and paper industry. Competence in the production of machines extends up to 55000 rpm. Permanent magnet technology is used in very slow and medium speed applications. (Annual report 2008)

The Switch High Power Converters, located in Vaasa, Finland has specialized know-how in power electronics. It has focused on the most demanding power electronics applications for distributed power generation, especially for utilizing alternative energy such as wind and sea power. It has concentrated on providing power with consistent high quality and constantly improves the quality of its power solutions. The Switch High Power Converters was formerly known as Verteco Oy and it was established in the beginning of 2003. (Annual report 2008; VP of The Switch)

The Switch Controls and Converters, located in Hudson, New Hampshire, USA bring to The Switch know-how in controls and specialized DC/AC converters. It focuses on solutions for use with solar and fuel cells. It is a long-established partner of Semikron, a leading manufacturer of power semiconductors. (Annual report 2008)

The consolidated turnover of The Switch is Euro 53, 7 million (2007, Annual report 2008: 16). Currently it employs over 190 people. The Switch's employees hold 25% of the total shares of the company. The value of The Switch contains five elements: leading minds, dynamically different, exploring challenges, care for environment, and seriously relaxed. Headquarter of The Switch is located in Vantaa, Finland. Other facilities in Hamburg (Germany), Hudson (New Hampshire, US), Vaasa and Lappeenranta (Finland), Lu'an (Anhui province, China) and Beijing (China). China and Germany were the most successful business areas (Annual report 2008).

The Switch has rapidly internationalized its operations to China and Germany in approximately two years. In June 2007, The Switch Engineering Oy established The Lu'an Switch Electrical Power Production equipment co., Ltd in Lu'an, in Anhui province. In July 2008, The Switch Engineering Oy set up its Holding Ltd in Hongkong, China. In September 2008, The Switch Engineering Oy started its registration process to establish The Switch Wind Power Systems co., Ltd in Beijing, China. Meanwhile, The Switch opened its new office in Hamburg on 1 Sep 2008 and it was a major step forward in its commitment to customer orientation. Figure 9 illustrates the timeline of The Switch's expansion to China and Germany.

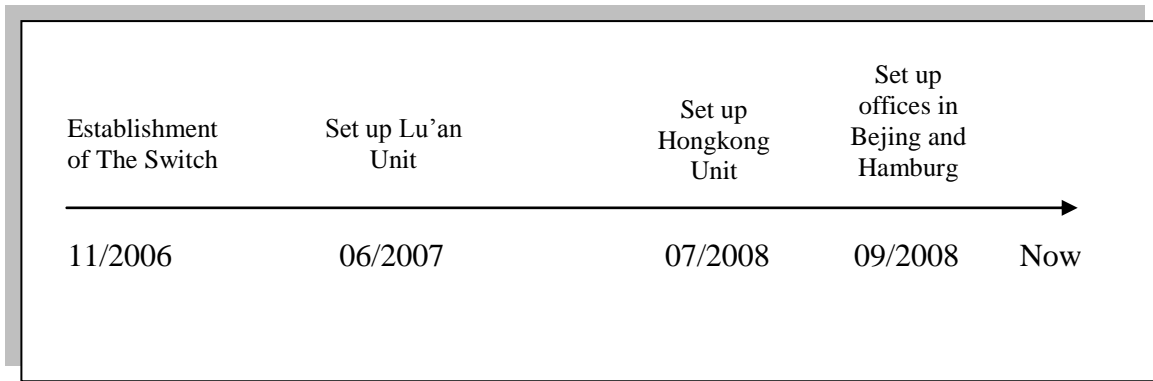


Figure 9. Timeline of the internationalization process of The Switch.

5.2. Motivations, presence and entry mode in China

The Switch started entering to Chinese market in 2007 (Annual report 2008). And by now, the business of The Switch is growing rapidly in China (Marketing Manager of The Switch). There is no doubt that China is one of the most important markets for The Switch. The motivations for The Switch to enter into Chinese market were as follows. First of all, China was and still is one of the biggest renewable energy, especially wind power markets in the world. Secondly, renewable energy was and is still needed in China. Marketing Manager of The Switch indicated the motivations, he said:

“We know the economy in China is growing, already at that time. En..., and then, China needs more energy, and that was really official statement, from the government in China, that wind power is one of those ways of producing energy. And there were some statements that 4% of the energy in China will be done with the wind power. It does not sound very big, but it is a huge portion”

And also, the motivations were further confirmed by the Vice President of The Switch:

“The motivation was very simple and clear, China was and is one of the biggest markets for wind power, and actually I guess this year it might be

the biggest wind power producer or builder in the world, so that was the simple reason that there is a big market emerging”

According to the replies from the Vice President of The Switch, today, The Switch has its presence in three cities in China: “a holding company in Hongkong, a production unit in Lu’an, and a sales office in Beijing”. All the three units in China are wholly owned by The Switch. From the ownership point of view, Lu’an factory is owned by the mother company, however, from the business area point of view, The Switch’s High Power Converters is in charging of the operations in Lu’an. In this paper, how The Switch’s managers tried to build and cultivate B2G guanxi in Lu’an city is considered so as to explore the empirical results (see figure 10).

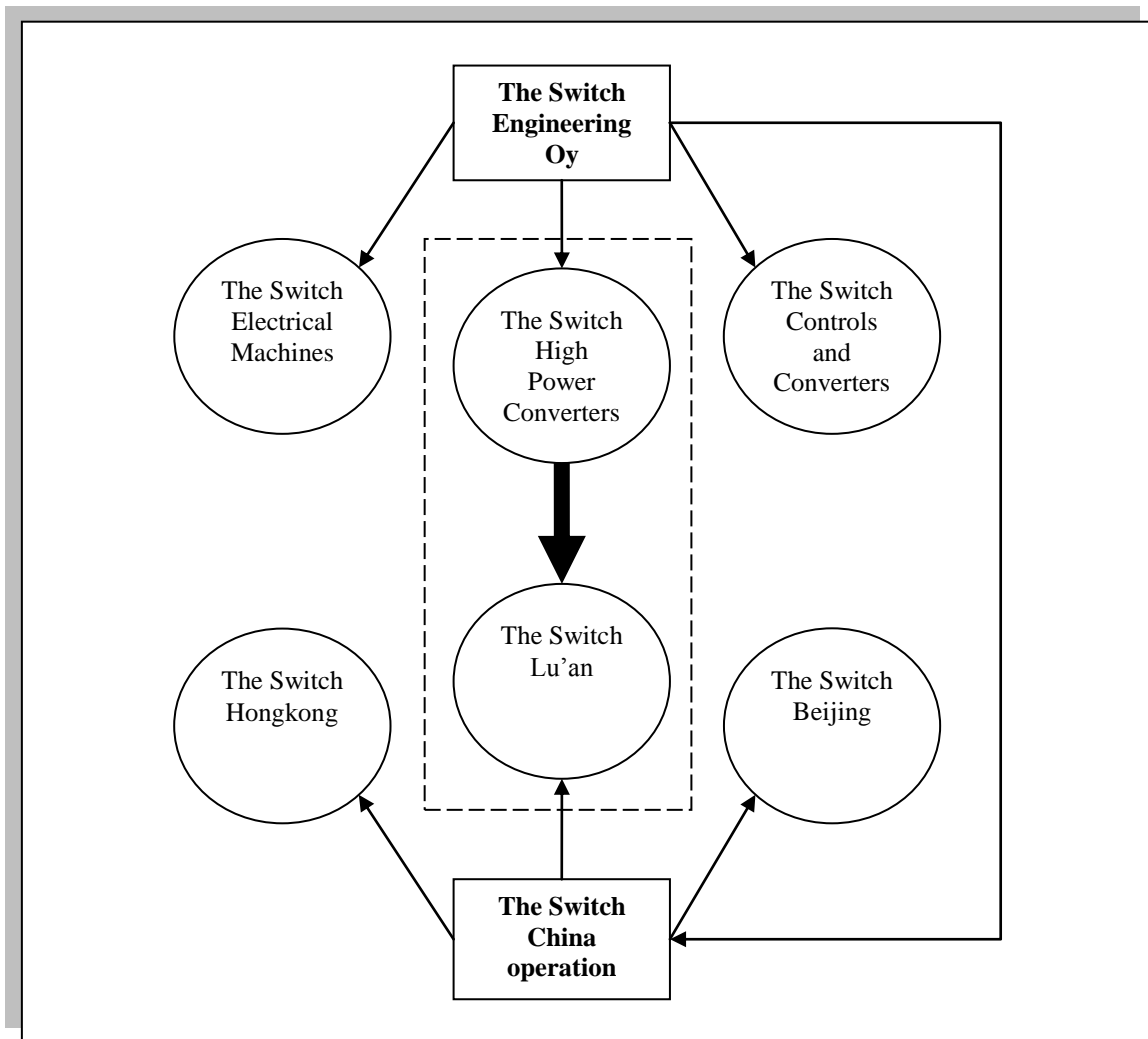


Figure 10. The Switch Engineering Oy China’s operations structure.

To sum up, although The Switch entered into Chinese market at a later time in 2007, its rapid expansion to Lu'an, Hongkong and Beijing were mainly due to China strongly needed renewable energy and its huge potential market (see table 12).

Table 12. Summary of The Switch's operation in China.

Year entered into China	2007
Motivations to China	China was and still is one of the biggest renewable markets and China needs renewable energy
Presence in China	Lu'an, Hongkong, Beijing
Mode of entry	WOS

5.3. Comparison of the case company's B2B and B2G guanxi

The Switch has been aware of the importance of having both business relationships (guanxi) (business to business & business to government guanxi) in China. However, during the interview with the marketing manager the author figures out that B2B guanxi is at the centre of attention among all The Switch's relationships. The Switch has put great efforts into building their B2B relationship through holding a variety of events and fairs, which aim to meet and discuss with their customers. The Marketing Manager said that:

"Yes, knowing people and meeting people are important things in marketing. Yes, in marketing mix, we use advertising and so on, but for example, fairs are quite good, we can meet the customers there, have an event with them and that kind of...building relationship...also, we organize this kind of customer event only for one customer, to build that deeper relation, I think, with key customers, we have had long history already, so it is getting easier and easier when we know each other better. Ok, it is the same thing in Finland and everywhere, the relationships, they are important, might be in China they are even more important"

In contrast, B2G *guanxi* has given lesser attention by The Switch and its managers, especially the relationship with the central government has not yet considered as needed. It is not surprising that The Switch has not had significant *guanxi* with the Chinese central government because the local governments directly rule all facets of the society in Hongkong, Beijing, and Lu'an, in which The Switch has located its three wholly owned subsidiaries.

However, it is worth pointing out that in addition to private-owned companies The Switch has also partnered with Chinese state-owned enterprises (SOE). For example, the state-owned company, DongFang Electrical Machinery Co. Ltd, signed a co-operation agreement with The Switch on 25 June 2008 to combine the world-class technology in megawatt class permanent magnet generators for wind power generation from The Switch with DFEM's production capabilities to match rapidly growing market needs (Reuters: 2008). DongFang Electrical Machinery Co. Ltd is managed by State Council of the People's Republic of China. Therefore, The Switch has had some sort of connections (not *guanxi*) with the central government. This was demonstrated by the Marketing Manager of The Switch:

"...we do business with the government owned companies. Not only the private companies, but also the kind of state-owned. And in that way we have kind of relations, but we have not been focusing to this central government. May be in the future we have been thinking we should build that relationship also".

Interestingly, although The Switch has given less attention on relationships with the central government, the company has tried to establish some level of relationships with the local government officials. Perhaps, this is due to the decentralization of the Chinese government bureaucratic systems, as a result, the local governments play a more salient role in managing their own municipalities. The need to appropriately deal with the local government officials was pointed out by most of the three interviewees, especially the relationships with the local government was needed for The Switch in the beginning of establishing its operation in China. For example, The Marketing Manager commented that *"relationship with the local government that we would need when we built our own*

factories, that kind of thing", Executive Assistance from Lu'an production unit said that *"The Switch had very good guanxi with the local government"*, and finally, their answers were confirmed by Vice President, he asserted that *"that's the only way to get things done, you (The Switch) had to have relationship with the local government officials"*. To further explain this, the Marketing Manager explored the reason why relationships with local government officials were needed to The Switch:

"If just sale, the government relationship is not so important, but if we make investment, that is important. The local government will help us, that's why we selected the location. ... And we put it to the place where we think we could get the most of the support. Like this kind of practical support, like they pointed a place, buildings and we can use this and so on"

This is in line with Fan's (2002b: 558) assertion that understanding of building and cultivating guanxi is crucial, and it cannot be ignored in company's initial stage such as introduction, negotiation, and set-up operation. Secondly, B2G guanxi is helpful when The Switch needs help and information from the government. *"Since the government departments are connected with each other, it's easier and quicker when we want to get needed help or information"* (Marketing Manager). However, it seems that The Switch has not put further efforts into improving its relationships with the local government officials at a deeper level after establishing its production unit in Lu'an, China. This was pointed out by the Executive Assistant in Lu'an, China, she responded that: *"...we (The Switch) haven't maintain(ed) it well in the past about one year time"*.

5.4. Building the case company's B2G guanxi

Targeting

Targeting is the first step of building stages of B2G guanxi in China. According to Vanhonacker (2004: 52), *Targeting* is defined as "identifying the key person with whom you want to build a relationship". Western businessmen should bear in mind two

important issues when targeting the right person: first of all, selecting of the target person is not random. Targeting should be directed by instrumental objectives of the foreign firm. Secondly, western businessmen should have a strategic view to select the target person. Long-term relationship is preferable (Vanhonacker 2004).

The empirical investigation has confirmed that targeting has to do at the forefront of the whole building process of B2G guanxi in China. The Switch had been aware of having some sort of B2G guanxi in the beginning of entering into Chinese market. Very importantly, the interviewees emphasized that they needed to identify the “right” local influential government officials. This was because The Switch had limited resources to meet and discuss with every government official in China. The marketing Manager of The Switch said:

“First thing is to whom we need to communicate, to whom we need to establish the relationship, the government is so big, and there are so many people working there. We do not have that much time and energy that we can communicate with everybody, so we need to know who can influence our business”.

The Vice President added on:

“Yes, we knew that we need to do that, and of course, then we had to select where to go because we could not go every place, we had to take one”

For example, the Vice President of The Switch replied that he met *the “local government people from Lu’an, in An Hui province such as the mayor of the town and the Director of the business district”*. The mayor and director of the business district are the officials who work for the second level of government in China (see table 5, p40) Furthermore, he indicated that roughly he met totally forty local Chinese government officials in different places such as Hongkong, Beijing, Tianjin, Lu’an, and Dalian to look for business opportunities in China. In Lu’an city, he met approximately twelve government officials based on his memory.

In addition, the two important issues which need to be considered at the targeting stage were also confirmed by the empirical data. Marketing Manager responded that *“The local government will help us, that’s why we selected the location. ... And we put it to the place where we think we could get the most of the support. Like this kind of practical support, like they pointed a place, buildings and we can use this and so on”*. That was confirmed by Vice President of The Switch, he added on *“what we understood that if you do not know the people, if you do not have the relationships, then you cannot get the permissions, you know, you do not get the stamps”*. According to the citations, the instrumental objective of The Switch was to get local government support such as approvals to use place and building, thus, The Switch’s managers beard their instrumental objectives in their mind when identifying the target government official. In addition, The Switch has not tried to build “as-needed” B2G guanxi because they *“believe this long-term relationship”* (Marketing Manager).

Scouting

Scouting has to do after identifying the target person. Scouting is helpful to close the gap between guanxi seeker and the target person in order to provide them an opportunity for further interaction. Scouting has to do with two ways: group identification and altercasting. If guanxi seeker can identify neither ascribed common bases (Kinship or locality affiliated) nor achieved common bases (such as colleagues and classmates) with the target person, guanxi seeker can use intermediary as an alternative way to close the gap with the target person.

Scouting as the second stage in building B2G guanxi was confirmed by the interviewees. The Switch was introduced to the target person through its *“local people”* (intermediary). Just like the Marketing Manager responded that *“it is really important to have local people, who look the local, who look Chinese, who can speak native Chinese language to introduce us to them”*.

The Vice President was directly involved at this stage and therefore his answer was extremely important as an example to demonstrate how The Switch established its initial contacts with the Chinese government officials in Lu'an city. The Vice President had neither ascribed nor achieved common bases with those identified Chinese government officials in Lu'an city. From his own guanxi networks, he found one of his colleagues had some sort of co-operation before with a Finnish person, who had been to Lu'an, China, and knew the local government officials. The Vice President made a phone call and asked if the Finnish person could introduce him to the government officials. Thus, the Finnish person organized the first meeting between the Vice President and the local government officials in Lu'an. It can be conclude that altercasting was alternatively used by The Switch and its managers as a mechanism to establish the initial contacts with the identified Chinese government officials. Further information can be found from the direct citation from the Vice President. He firstly indicated how the first meeting was organized in Lu'an:

"We had one person, Finnish guy, who had been there before, for example in Lu'an, he could like introduce us, he knew those guys and could organize the first meeting. For me, when we went there, that was really the first time to see those persons".

And then, he furthermore explained how he knew this Finnish person:

"One of my colleagues had some co-operation with him (the Finnish person) earlier, and then, I just phoned him and if he could help us organize such things, I did not know, but my colleague knew".

Figure 11 summarized how The Switch and its managers built their initial contacts with the influential Chinese government officials in Lu'an, China. Each of the four cycles represents all social relations of the person. The left-right arrows demonstrate that the two persons nearby have some sort of relations and therefore they know each other. The dotted line indicated that the two persons got to know each other indirectly. Thus, A and C were not familiar with each other before the introduction of B. Very importantly, A and D could not meet each other without the help of C. B and C were the intermediaries, who were chosen by A, as the bridges to close the gap between A and D. It should be

noting that although C and D were both known by A indirectly, getting to know C should prior to D.

This example can best explain the meaning of *guanxi* as a social capital and its transferability, which have already discussed in page 15 and 82. *Guanxi*, as a sort of social capital, not only refers to specific ties between individuals but also refers to an entire work of a specific person (*guanxi wang*). Person A in The Switch has *guanxi* with person B due to they are colleagues. The theory of social capital implies that A is not only linked with B, but is also connected with all B's other relations. The connections between A and B's other relations are indirect, which means that A can only establish some sort of relationships with C through B since *guanxi* is transferrable. Transferability of *guanxi* in this case means B transferred his *guanxi* with C to A, as a consequence, relation between A and C was built.

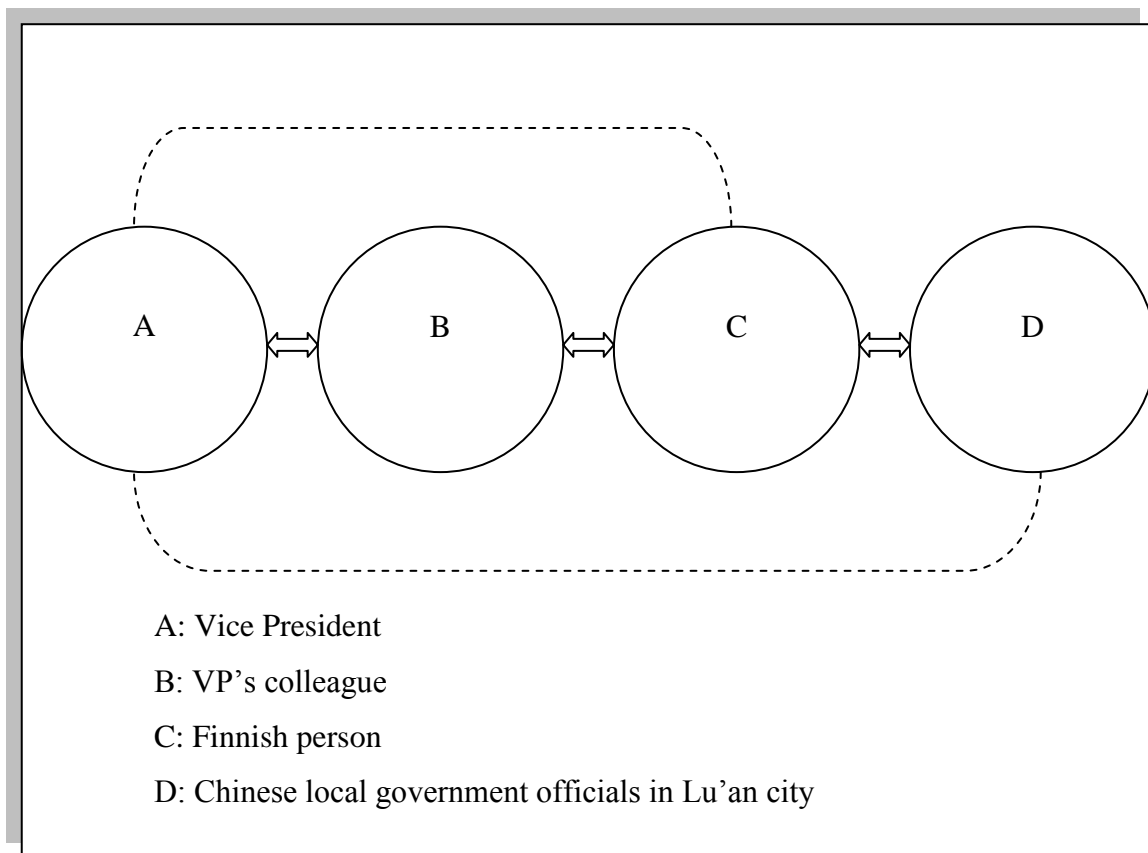


Figure 11. Scouting followed by The Switch.

Signaling and packaging

Signaling and packaging are the third and last step of building stages of B2G guanxi in China. When move to the last two stages, western guanxi seekers are suggested to deliver appropriate signals that they are interested in establishing close guanxi with the officials. This has to do at signaling stage. Packaging means guanxi seeker should carefully hide their instrumental objectives, so as not to raise target person's suspicion that they are seeking purely instrumental objective. In other words, asking favors from the Chinese government officials should be avoided before their guanxi is further cultivated and improved. (Vanhonacker 2004: 52-53)

Local B2G guanxi was really important to The Switch when it started establishing its Lu'an factory, China. The local government in Lu'an city had absolute power to point out a place and a building in where The Switch could establish its Lu'an's production unit. Therefore, asking approvals from local government in order to use scarce resources such as land and building was The Switch's instrumental objectives. According to Vanhonacker's (2004) indication, The Switch's manager should carefully hide their instrumental objectives at signaling and packaging. The Marketing Manager responded that The Switch *"did not ask the approvals for the factory immediately"*. Furthermore, the Vice President asserted that from the first meeting with the Chinese government officials in Lu'an city until The Switch got approvals took *"roughly a year"* time. The Switch's managers met those officials *"three or four times"* during that year. The Vice President further explained what they did during that time:

"First we asked what we should do, what kind of applications we should do, we asked for help and guidance that we should do, and what they are expecting from us, how big investments, and what are the rules, and then we make the paper work, and then of course, please...the stamp"

According to the Vice President's responses, it is not unexpected that The Switch's managers did not consciously hide their instrumental objectives because they asked help during that limited three or four times.

The author has drawn a figure (figure 12) so as to summarize how The Switch tried to establish B2G guanxi with the influential government officials in Lu'an city. **First of all**, together with his colleagues, the Vice President of The Switch identified the influential government officials in Lu'an city, with whom they desired to meet. This was because The Switch had limited resources to meet every government official in Lu'an. Vanhonacker (2004) termed this stage as targeting. **Secondly**, it was almost impossible for the Vice President himself to close the gap with those officials due to he had neither ascribed nor achieved common bases with them. However, he sought out one of his colleagues' friend (Finnish person in figure 11) had been to China and therefore knew the influential officials in Lu'an city. He made a call to this Finnish person with the help of his colleague to ask if the Finnish person could arrange the first meeting between him and the officials. As a result, the first meeting was arranged with the help of the Finnish person. Thus, the Vice President's colleague and the Finnish person acted as intermediaries, who played a salient role in introducing the Vice President and his colleagues to the officials. Scouting was termed by Vanhoncker (2004) to describe this process. As indicated by Yeung and Tung (1996), scouting can be done by group identification, or alternatively, by altercasting. The Switch and its managers used altercasting as the mechanism to close their gap with the influential government officials in Lu'an city, China. **Thirdly**, to some extent, The Switch's managers delivered some sort of signals to the officials in Lu'an that they were interested in building close guanxi with them. The Switch's managers hold three or four times dinner with the officials, none of the officials were singled out and they were all invited together. Thus, the dinner time could be seen as a broader context where The Switch's managers delivered signals. **Finally** but unfortunately, The Switch's managers did not follow the last stage which was suggested by Vanhonacker (2004). Because they only met the government officials three or four times and every time they discussed their business issues. The three arrows from up to down in figure 12 illustrates that The Switch tried to built its B2G guanxi by following targeting, scouting, and signaling stages. Unfortunately, the results showed that packaging was not done.

In the following subchapters, how The Switch tried to improve their guanxi with the Chinese government officials are discussed in accordance with the four identified main

cultivating strategies, namely, practicing social interactions, holding informal discussion, gift-giving, and building trust.

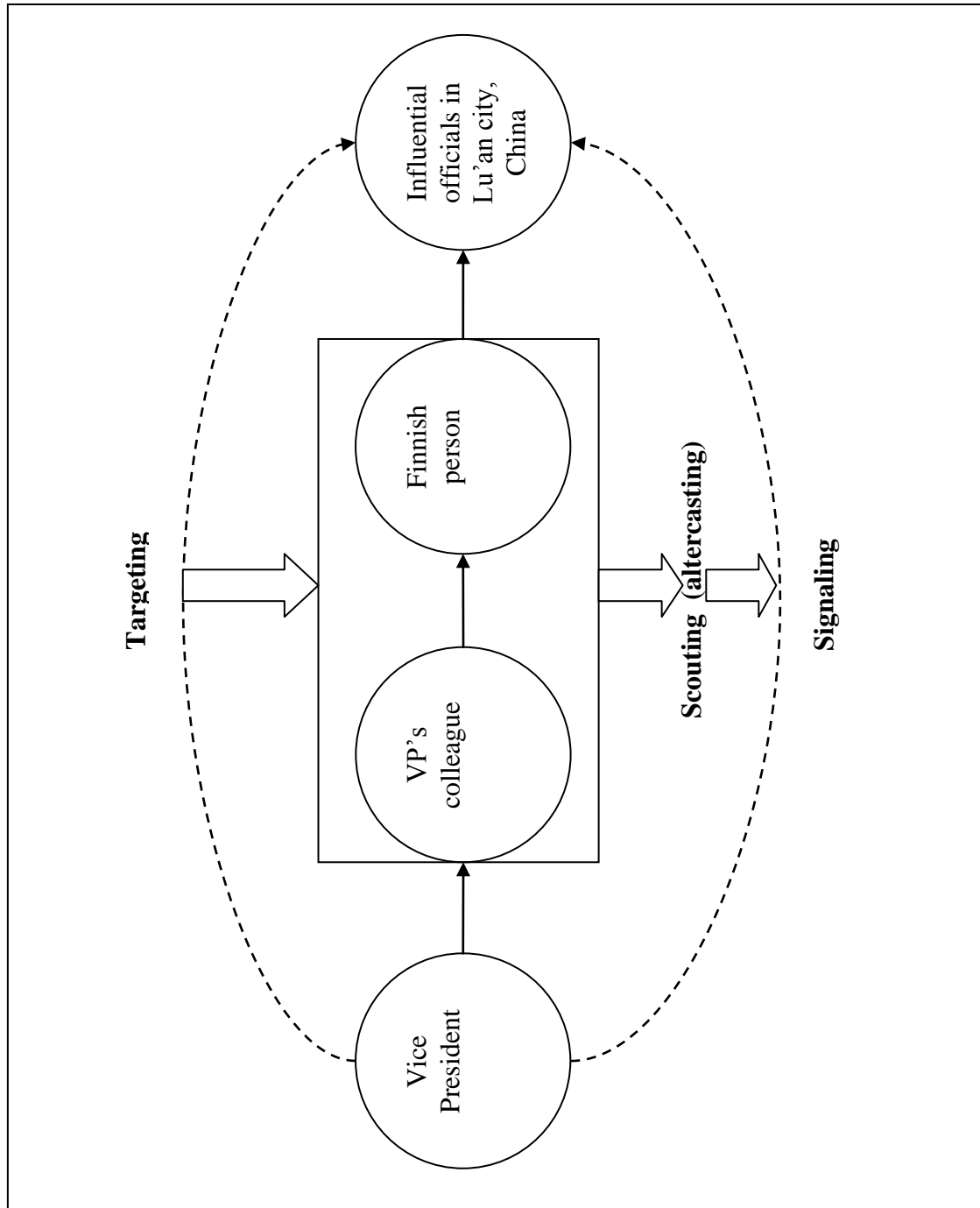


Figure 12. Summary of how The Switch tried to establish B2G guanxi with the influential government officials in Lu'an city, China.

5.5. Cultivating the case company's B2G guanxi

Practicing social interaction and holding informal discussion

Western businessmen can frequently hold social-oriented activities and informal discussion with the target Chinese government officials so as to increase their interaction and strengthen their affection. Good social-oriented activities are holding a proper dinner for the target person, and inviting the target person to birthday banquet and celebrations of marriage (Yau et al. 2000: 21, Jacobs 1982, Yang 1994). Compared with social-oriented activities, informal discussion requires the western businessmen to interact with the target government officials at a deeper personal level such as revealing personal secrets and sharing inner feelings (Yau et al. 2000: 22). The Switch has put some efforts into practicing social-oriented activities so as to increase its interaction with the Chinese government officials. This was commented by The Marketing Manager.

“I think, simply like keeping contacts, constant information flow, en..., frequently visits, and so on. It is like how you build your own relationship with your own friends. You just need to be open, and have a dialogue, communication, that's the main thing”

More importantly, The Switch noticed the importance of holding a proper dinner with the Chinese government officials as a good social-oriented activity. The Marketing Manager responded as followings:

“Day time meetings are quite important, it is even more important to have dinner together in the evening. Then you have the informal conversation to build the relationship with them”

The Vice President further confirmed that they held dinner “every time” when they visited the Chinese government officials. For example, in Lu'an city, they arranged three or four meetings with the officials and therefore they had three or four dinners

together. During the dinner time, they discussed a variety of topics, such as *“business opportunity, business potentials, what are our (The Switch) plans, what are their (officials) plans”*. Meanwhile, the Vice President indicated that he had acquired some crucial information through the discussion during the dinner time, such as *“what kind of benefits I can get, is there some taxation benefits, or can I get some...en...whatever, like help from the government can they help me building the factory”*, and additionally, they *“had to explain what is our business volume, how many persons, this kind of discussions”*. The topics which were firstly discussed around the dinner table were likely to be *“formal”*. Interestingly, according to the responses, *“later in the evening, the discussions also became informal”*.

To sum up, The Switch’s managers proactively practiced social interactions, but unfortunately, they did not hold informal discussions to reveal their personal issues with the government officials in Lu’an city so as to improve their personal relationships. Although the interviewees such as the marketing manager and the Vice President highlighted that *“informal conversation”* and *“informal discussions”* were held with the government officials during dinner time, the topics relating to the informal conversations and discussions were not personal related since the Vice President responded that *“they (officials) do not know me or my colleagues at personal level”*.

Gift-giving

Gift-giving in China is a social art and it can be best done at proper time and under certain occasions. As indicated by Vice President, he and his colleagues always brought some gifts when they visited the local Chinese government officials in Lu’an, and other cities in China. He also indicated what kind of gifts they gave and at what time:

“Just normal Finnish gifts, like MARSKIN RYYPPY, that’s like a Finnish Maotai (a very famous brand of Chinese alcohol), just the ordinary business gifts, when we visited, and also Chinese small things. I remembered when we went to Lu’an, we gave those gifts every time we went there, Chocolate or something very Finnish”.

The interviewee had no specific intentions except showing politeness to give gifts to the officials in China because he also did the same things in Finland. ‘

“No..., for me, it is like if I go to meet a customer or an official in Finland, I also bring chocolate or something small, just you know, be polite. So I guess there is no bigger meaning, just be polite, greeting from Finland”.

Prior study suggested that gifts should be given at important holidays such as Chinese spring festival, the dragon boat festival, the mid-autumn festival, the lantern festival, and other occasions such as birthdays, children entering to high school, and so on (Yongqiang & Zhilong 2006: 81) and gift-giver should carefully hide their instrumental objectives when delivering gifts (Tsang 1998: 66). By comparing the indications from previous research and the interviewee’s response, the author argued that although managers from The Switch have been aware of giving some gifts to the officials in China, their gift-giving could not have its full meaning as a strategy to strengthen guanxi since they were not given at the suggested time and occasions.

Building trust

Trustworthiness of a person is judged differently in China and western countries. In western countries, the trustworthiness of a person is relevant to two types of trust: competence trust and goodwill trust (Nooteboom: 1996). In China, in contrast, a person is trustworthy if he is sincere, credible, honest, reliable and capable (Chen & Chen 2004: 313). It is noteworthy that sincerity, which is correspondence to goodwill trust, is the primary criteria in China to judge a person’s trustworthiness (Chen & Chen 2004: 313). “Deliver what you have promised” and “Do not cheat” are considered as the ways to show a person’s sincerity in China. What The Switch has done in order to build trust with the government officials is in line with the unique practice of building trust in China. The Marketing Manager commented that:

“...There is no cheat, you know if you cheat your (Chinese) friend, he does not like that...”

Later on, the Vice President of The Switch explored in details how they tried to build trust and explained the reason behind it. He said that: *“We tried to build the trust by telling our plans, and how much we invest, we invest to that factory, all that... so that’s our way building the trust”*. This was because *“the first time when they said hello then they asked how much you invest. That’s the first question”*.

Other cultivating strategies

Building trust, practicing social interaction, holding informal discussion, and giving gift are not the exclusive cultivating strategies of B2G guanxi. In addition to the four most of mentioned strategies, western firm can also strengthen their guanxi with Chinese government officials by organizing “community activities” and undertaking “goodwill” projects (Pearce & Robinson 2000: 37). Good examples of “goodwill” projects are funding schools and renovating historical buildings. In doing so, western firms can show the Chinese government that they are doing good things for the society and the people.

The Switch has done some activities so as to show Chinese government that its presence in China is good for the Chinese society and the local people. Firstly, the Marketing Manager said that The Switch *“hair all the time more and more people, let the local government see that we make good for the society”*. Undoubtedly, having an increasing number of employees has improved The Switch’s B2G guanxi with the local governments in each of the cities, including Lu’an. Secondly, Deyang is the home city of Dong Fang Electronical Machinery Co. Ltd, which is a key partner of The Switch in China (Reuters: 2008). In 2008, Deyang city was damaged by a magnitude 7.9 earthquake. The Switch donated money gift to the city Deyang to purchase winter jackets for the children (The Switch’s annual report: 2008: 19). It is noteworthy that the donation has had a direct and positive influence to The Switch’s B2G guanxi with the local officials in Deyang city, but not in Lu’an city. Nevertheless, similar strategies are worthwhile to be implemented by The Switch’s managers in other cities such as Lu’an so as to strengthen their B2G guanxi with the Lu’an government officials.

So far, how The Switch and its managers tried to build and cultivate some sort of guanxi with the Chinese government officials in China, especially in Lu'an city have separately discussed and explored. However, the theoretical framework suggests that building guanxi and cultivating guanxi are not two distinct procedures. In other words, along with other strategies, the four main cultivating strategies were suggested by the academicians to use from scouting to packaging stage. Thus, the analysis of the four strategies in relation to the identified four building stages is therefore crucial to understand at which specific building stage The Switch and its managers used the main cultivating strategies so as to improve their B2G guanxi with the officials. Table 13 displayed the relations between building stages and cultivating strategies, which were followed by the case company.

Table 13. Relations between building stages and cultivating strategies which were followed by The Switch.

	Targeting	Scouting	Signaling	Packaging
Practicing social interaction	-	-	+/-	N/A
Holding informal discussion	-	-	-	N/A
Gift-giving	-	-	+/-	N/A
Building trust	-	-	+/-	N/A

+: the specific cultivating strategy was implemented.

-: the specific cultivating strategy was not implemented.

+/-: the specific cultivating strategy was not implemented sufficiently.

N/A: not available

The first row in table 13 consists of the four identified building stages of B2G guanxi. The first column displays the four main cultivating strategies. The sign of “+” simply

means The Switch used the specific cultivating strategy at the certain stage of building B2G guanxi. The sign of “-”, in contrast, indicated the opposite meaning. It is not surprising that at targeting stage, none of the cultivating strategies were used. This was because The Switch’s managers had no direct interactions with the officials (-). At scouting stage, The Switch’s managers closed their gaps with the officials in Lu’an city with the help of The Vice President’s colleague and the Finnish person. Although the gaps were closed, The Switch’s managers had not met the identified officials by that time. As the implementation of social interactions and informal discussions, gift-giving, and building trust are all likely to require some level of face-to-face meetings between The Switch managers and the officials, it is not unexpected that those strategies were not executed at scouting stage (-). Later on, at signaling stage, The Switch and its managers put some level of efforts into implementing most of the cultivating strategies except holding informal discussion. The Switch’s managers hold three or four dinners with the officials so as to increase their interactions and exchange their sentiments. Thus, to some extent, practicing social interaction was carried out. However, if The Switch had done more social activities with the officials in Lu’an city, practicing social interaction would have had its full meanings (+/-). The Vice President commented that some gifts were given every time when they visited the officials. However, The Switch’s managers did not notice the unique practice of gift-giving as the gifts were not given at special holidays and occasions (+/-). The managers tried to show their trust to the officials by honestly stating The Switch’s plan and the amount of money they intended to invest to China. But, it is almost impossible for The Switch’s managers to fully build their trust in a limited time due to Chinese are likely to spend a lengthy time to judge an out-group member’s trustworthiness (+/-). The analysis of the four cultivating strategies in relation to packaging stage was not available since The Switch’s managers had not followed this stage.

To conclude, at targeting and scouting stages, The Switch’s managers used none of the four main cultivating strategies because their focuses were to find out how to close the gaps with the identified influential officials in Lu’an city. At signaling stage, except holding informal discussions, though practicing social interaction, gift-giving, and

building trust were all executed, they could not have their full meanings since they were not at the central attention of The Switch's managers.

5.6. The case company's challenges to developing B2G guanxi

Cultivating B2G guanxi and communication

During the interview, the author had found that the Finnish informants were unclear the difference between building and cultivating B2G guanxi and communication with the Chinese government officials. Communication is necessary because during the process of building and cultivating B2G guanxi conversation is always needed, especially communication cannot be ignored when practicing social-interaction and holding informal discussion. But it is an insufficient condition to the development of B2G guanxi in China, because western businessmen should also put great efforts into building trust and giving proper gifts so as to strengthen their “ganqing” or affection with the Chinese government officials in addition to frequent interaction (practicing social interaction and holding informal discussion) (Yau et al: 2000).

Communication style differences

Different communication styles in Finland and China was observed by one of the interviewees as a major challenge to western businessmen during the development of B2G guanxi in China. The Executive Assistant from Lu'an production unit responded that *“Chinese tend to be more modest and close compared with western people. They feel uneasy to deny people and won't say it directly. But western people are frank, they just say what they feel. This may sometimes cause misunderstandings or unhappiness”*. Her comments were later on confirmed by the Vice President. He asserted that *“Finnish people are straightforward but Chinese are not”* and therefore he sometimes wondered *“what is going on”*.

The responses from the Executive Assistant and the Vice President empirically verified that direct versus indirect communication styles difference in China and Finland is one of the potential challenges. High vs. low context communication style was explored either because in high context culture, typically China, people would deliver their meanings indirectly as they expect others to read of the lines. It is worth highlighting that the other three verbal communication styles were not revealed from the responses (see table 14).

Table 14. Communication styles differences (Taylor & Osland 2005: 220).

Communication styles	Confirmed/Not confirmed
High-versus. low- context	Confirmed
Direct versus. indirect	Confirmed
Personal- versus. status-oriented	Not confirmed
Self-enhancement versus. self-effacement	Not confirmed
Succinct-exacting-elaborate	Not confirmed

Language as a challenge

Perhaps, the biggest challenge to the development of all kind of guanxi in China, including B2G guanxi, from the western businessmen's perspective is the language difference between Finland and China. The Switch's Marketing Manager commented that:

"...the language is a quite big problem, that you need to know in the beginning when you are doing business in China, not so many people...who can speak good English, they properly understand pretty well, but they do not want to talk. So you always need a translator, you need to translate your material, and...en..., find a good translator that you can trust...when we do

marketing, we... (have) to match the local culture, not just translating, but the real write idea in Chinese”.

The Switch’s Marketing Manager’s assertion was confirmed later by the Executive Assistant from The Switch’s Lu’an factory, China. She responded that the challenge to her western colleagues was “*to linguistically understand...during communication*”. Furthermore, the Vice President of The Switch explained how language as a barrier to the development of guanxi between people who speak different languages. He added on:

“I have learned that, Finnish people and Chinese people, you know, people are people, there are things they like, they have hobbies, they have families, and there are lots of things which you can discuss, if you have a common language, it make things easier. Language is one of the biggest challenges.”

To some extent a translator may be useful, but there is no doubt that the translator is not a proper message deliver for western businessmen during informal discussions in which personal issues are discussed. Thus, western guanxi seekers are suggested to develop their linguistic ability to understand the Chinese language.

By now, how The Switch has tried to build and cultivate its B2G guanxi in China and the potential challenges have been explored. In the next, the quality of B2G guanxi which was developed by The Switch’s managers is evaluated in accordance with the criteria of a true, healthy, and long-lasting guanxi.

Quality of B2G guanxi between The Switch’s managers and the officials in Lu’an

Empathy which means the ability to understand the other person’s desires and goals and it has to be linked at a cultural level to see situations from the other person’s perspective although not necessarily agreeing with such a perspective. Empathy plays a central role in developing a deep relationship in China due to Chinese people is not straightforward. Perhaps, The Switch’s managers were not empathetic to the Chinese officials because they had different communication styles and lack of shared languages with the officials.

Reciprocity also exists in western countries. However, reciprocation in China should be done at an appropriate time and with a greater value. The Vice President of The Switch asserted that The Switch's managers did some returns to the Chinese government officials. The returns were *"nothing out of normal things like the small gifts and we paid sometimes the dinner"*. Although reciprocation was implemented, The Switch's managers had not being aware of the unique practices of reciprocation in China. The returns such as small gifts and payment for dinner were not given later on at an appropriate time with a greater value. In addition, the reciprocations which were done by The Switch could not have its full meanings since The Switch's managers were not empathetic. It should be noting that the donation to the children in Deyang city in where was damaged by a magnitude 7,9 earthquake was a kind of return from The Switch. But the donation had not significantly contributed to the improvement of B2G guanxi between The Switch's managers and the officials in Lu'an city as the donation was done in another city.

To some extent, The Switch's managers built their **trust** because they delivered what they had promised to invest in China. However, the officials in Lu'an city may perceive The Switch's managers were not fully trustworthy due to two explanations. Firstly, since trustworthiness in China is closely linked with reciprocity (Tsang 1998: 67), The Switch's managers could not be fully trusted by the officials since the reciprocity could not have its full meaning. Secondly, Chinese are likely to spend a lengthy time to judge an out-group member's trustworthiness. Three or four time meetings between The Switch's managers and local officials in Lu'an city are not enough.

Bonding in China exists usually between family and extended family members (blood) and familiar persons such as friends and colleagues (social) (Yeung & Tung 1996; Yau et al. 2000). Whether blood or social, is the degree of closeness between the persons. Thus, The Switch's managers were supposed to develop affection with the officials in Lu'an city so as to move closer with each other. However, The Switch's managers did not move so close with the officials in Lu'an city as they did not hold informal discussions and did not notice the unique practices of the other three cultivating strategies sufficiently.

In sum up, figure 13 displays the quality of the B2G guanxi between The Switch's managers and the government officials in Lu'an city. X represents the officials such as *mayor* and *director of the business district* in Lu'an city. The system of concentric cycles illustrate all X's social relations. A and A' represent The Switch's managers. Before The Switch's manager met the officials at the first time, they had stranger guanxi with the officials. The Switch's managers were at A' position. During three or four time meetings, to some extent, B2G guanxi between The Switch's managers and the officials had improved (from A' to A). After that, The Switch's managers have not further improved their B2G guanxi (dotted line). The degree of closeness between The Switch's managers and the officials determines their guanxi's quality since they are neither family members nor familiar persons. Since the four criteria of a true, healthy, and long-lasting guanxi, bonding, reciprocity, trust, and empathy, have not fully achieved, the quality of B2G guanxi between The Switch's managers and the officials in Lu'an city is low.

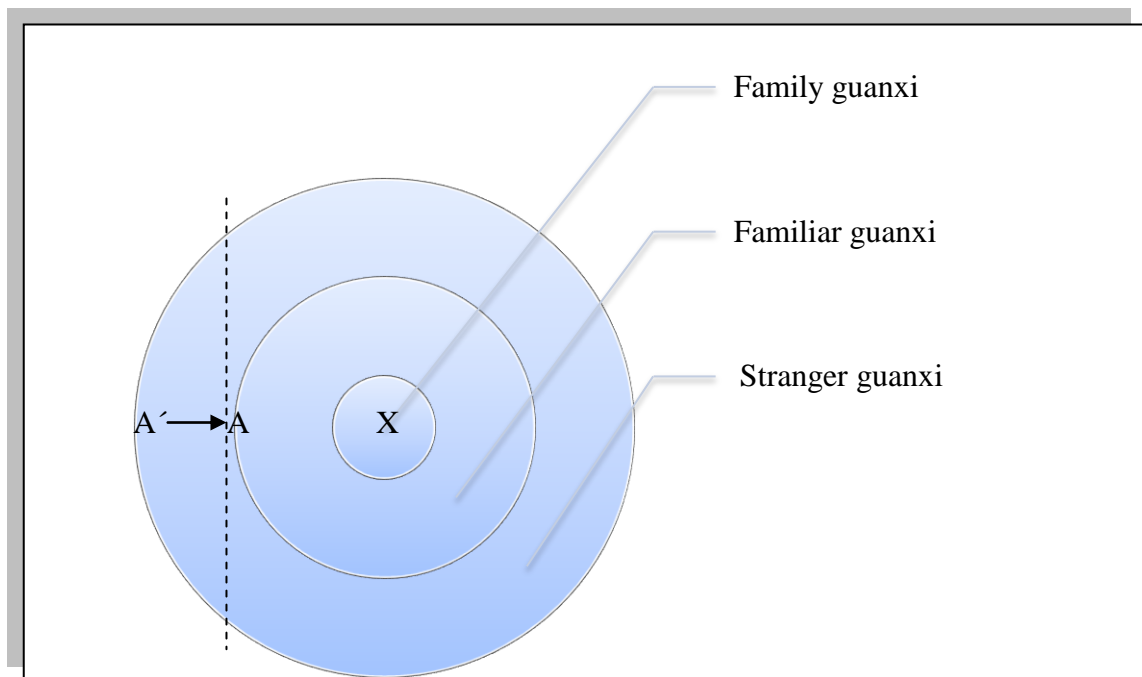


Figure 13. Quality of B2G guanxi between The Switch's managers and the officials in Lu'an city.

6. SUMMARY AND CONCLUSIONS

It is a goal in the last chapter to summarize and conclude the present study. There are two subchapters in chapter 6. The first subchapter is to summarize the study and answer the research purpose and objectives. Conclusions are given in the second subchapter, in which the results are discussed in relation to previous research, in addition, managerial implications, limitations, and suggestions for future research are also presented in this subchapter.

6.1. Summary

In general, this study focuses on one of the unique aspects of doing business in China, guanxi. In more detail, the present research has given specific attention to one type of guanxi, business to government guanxi, as the research domain. The topic of the present study is stated as follows: building and cultivating business to government guanxi in China and its potential challenges from western firm's perspective. The main purpose is to *explore how to build and cultivate business to government (B2G) guanxi in China (PRC) and explore the challenges from western firm's perspective*. In order to achieve the main purpose of the study, three following objectives are discussed. And meanwhile, in order to summarize the whole study, the discussions of each of the three objectives are briefly presented and reviewed.

The first objective is *to analyse the phenomenon of guanxi in order to increase basic understanding of guanxi*.

The unique practice and character of guanxi is a production of Chinese exclusive culture and long history. The origin and fundamental meaning of guanxi came from Confucian's philosophies (Confucius 551-478 B.C). Instead of guanxi, *lun* was literally

used at that time and it consisted of three meanings. The first meaning of *lun* emphasized the ***importance of human relations*** in ancient Chinese society. The second meaning of *lun* defined the ***social order*** in ancient Chinese society. The last meaning of *lun* indicated the ***moral principles*** regarding interactive behaviours of related parties. Guanxi was defined differently by in previous studies.

The definition of guanxi in existing literature can be classified into three groups. First of all, guanxi is simply defined as ***interpersonal relationship***. Secondly, guanxi is furthermore concerned as ***bounded relationship between individuals, which aims to achieve mutual benefits through exchange of favors and helps***. Lastly, some academicians such as Fan (2002b) gave ***specific attention to relationship between guanxi and business*** and his definition of guanxi was adopted in the present study.

There are three types of guanxi: ***family guanxi***, ***familiar guanxi***, and ***stranger guanxi***. This classification was largely recognized by academicians, and perhaps, Fan (2002a, 2002b) is the only exception. The difference is the third type of guanxi. Fan (2002a, 2002b) asserted the last type of guanxi is ***business guanxi***. Business guanxi is further more divided into B2B guanxi and B2G guanxi. In the present study, stranger guanxi and business guanxi are both taken into consideration due to most of the western managers are strangers to Chinese officials and the former usually seek out B2G guanxi with the latter.

There are a number of advantages of having close B2G guanxi. First of all, B2G guanxi can significantly reduce foreign firms' information searching costs. Secondly, B2G guanxi is helpful for foreign firms to get scarce resources such as land, utilities, and local supplies of labour and materials. Thirdly, it is easier for foreign firms to get business approvals in China if they possess B2G guanxi. Last but not the least, another benefit of having B2G guanxi concerns the smooth running of routine business operations in China. Western managers should be noting that meat and wine friends and bribery are not the correct way to develop their business to government guanxi in China. Because they may enough for an one-off basis relationship, but certainly, they cannot

buy a true, healthy, and long-lasting business to government guanxi, which requires bonding, reciprocity, trust, and empathy between the people.

The second objective is to *explore the building stages and the main cultivating strategies of B2G guanxi in China.*

There were limited studies in the existing literature and most of them considered building and cultivating guanxi are interchangeable terms. However, in the present study, the two terms have a clear distinction. Building guanxi mainly considers how foreign firms can appropriately build initial contacts with the Chinese government officials. Cultivating guanxi refers to a further step to develop a closer guanxi.

In addition to Vanhonacker (2004), handful researchers contributed their work relating to how to systematically build guanxi, especially B2G guanxi. Thus, the building stages which were theoretically explored in the study were mainly on the basis of Vanhonacker's (2004) assertion. Other researchers' elemental findings were integrated into Vanhonacker's (2004) indication so as to provide a comprehensive theoretical knowledge.

In China, B2G guanxi is built through four consecutive stages: targeting, scouting, signaling, and packaging. **Targeting** referred to identifying the key person with whom you want to build a relationship (Vanhonacker (2004: 52). Guanxi seeker should bear in mind two important issues at this stage: firstly, the selection of the person depends upon guanxi seeker's *instrumental objectives*. In other word, the target person should be helpful for guanxi seeker to accomplish his intended objectives. Secondly, guanxi seeker should keep in mind a *strategic view* so as not to identify the target person on the basis of one-off relationship. The second stage of building B2G gaunxi is scouting. **Scouting** tends to close the gaps between guanxi seekers and the target person. Scouting can be done either by *group identification* and *altercasting*. Identifying the common bases between guanxi seeker and the target person is crucial for group identification. Common bases are classified into ascribed and social common bases. Altercasting as an

alternative mechanism plays a salient role in closing the gap between two unrelated persons. Intermediary can be also seen as a special common basis. The last two stages in building guanxi are **signaling** and **packaging**. Guanxi seekers are suggested at these stages to deliver appropriate signals to the target person in the context of a broader social event. Very importantly, guanxi seekers should carefully hide their instrumental objectives.

The third objective is to *empirically explore how a Finnish firm has tried to develop its B2G guanxi in China and explore the potential challenges.*

The Switch was selected as the single case company. The Switch's managers followed the targeting, scouting, and packaging stages of building guanxi, which were identified on the basis of Vanhonacker's (2004) assertion. First of all, The Switch identified limited influential officials in Lu'an city, the number of identified government officials in Lu'an city was twelve. After identified those influential officials, The Switch and its managers tried to close their gaps with the help of two intermediaries. One of them was the Vice President's colleague and the other one was a Finnish person who had some sort of cooperation with VP's colleague. After the gap had been closed, The Switch's managers delivered signals to the officials through holding dinners. Unfortunately, they did not follow the packaging stage to carefully hide their instrumental objectives. To some extent, The Switch's managers practiced social-oriented activity such as holding three or four time dinner, giving some ordinary and Finnish style of gifts, and tried to build some level of trust so as to improve their guanxi with the government officials in Lu'an city.

The Switch's managers faced several challenges. First of all, the officials were confusing about the differences between having B2G guanxi and communicating with the Chinese government officials. Secondly, communication styles difference is another barrier for western managers to develop a close guanxi with the officials. Lastly, perhaps, the biggest challenge to The Switch's managers was they did not speak the common language with the identified Chinese government officials.

6.2. Conclusions

The building stages of B2G guanxi in China were referred mainly from Vanhonacker's (2004) assertion, other researchers' elemental indications were integrated so as to comprehensively explore how to build B2G guanxi in China. Cultivating strategies of B2G guanxi were mainly explored from mentionable researchers and academicians such as Yeung and Tung (1996), Yau et al. (2000), and Chen and Chen (2004). In comparing above mentioned priori research findings, the empirical study has shown some interesting similarities and dissimilarities (see table 15).

Table 15. Similarities and dissimilarities between theory and empirical results.

Theoretical framework (Prior research)	Theory in existing literature	Empirical results
Building stages of B2G guanxi (Vanhonacker 2004 and others)	Targeting	Y/N
	Scouting	Y
	Signaling	Y
	Packaging	N
Cultivating strategies of B2G guanxi (Yeung & Tung 1996; Yau et al. 2000; Chen & Chen 2004)	Practicing social interaction	Y/N
	Holding informal discussion	N
	Gift-giving	Y/N
	Building trust	Y/N
	Other strategies	Y
Potential challenges	Direct vs. Indirect verbal style & High vs. low context communication style	Y/N

Y: results and theory are similar. N: results and theory are dissimilar. Y/N: results and theory are not fully consistent.

On the one hand, a number of elements from the theoretical framework have been confirmed by the empirical results. *Firstly*, targeting has to do at the forefront of the building stages and guanxi seeker should bear in mind their instrumental objectives and a strategic view when selecting the officials were confirmed by the results. But the first similarity is partly consistent with the theory. *Secondly*, at scouting stage, the empirical investigation verified that altercasting as an alternative mechanism to close the gap between guanxi seeker and the target Chinese officials. *Thirdly*, The Switch's managers delivered some levels of signals to the officials through holding appropriate dinners. *Fourthly*, to some extent, the managers from the case company tried to improve their guanxi with the officials by holding appropriate dinner, building trust through showing their honest, and giving some ordinary gifts. However, these results are not fully consistent with the theory. *Lastly*, in the theoretical framework, direct vs. indirect verbal style and high vs. low context communication style differences as potential challenges were in line with the results.

On the other hand, some dissimilarities have been identified. *First of all*, in the existing literature, probably most of the academicians argued that western firms should have had a variety of guanxi at multi level of governments. Surprisingly, The Switch's managers have focused on local governments and higher level government officials have not been considered due to its limited resources. Perhaps, limited time was the scarce resource. *Secondly*, the case company's managers did not consciously hide their instrumental objectives in building guanxi with the officials in Lu'an city because every time they met the officials they discussed the issues which could favor The Switch. *Thirdly*, holding informal discussions as one of the main cultivating strategies was not executed by The Switch and its managers. *Fourthly*, although The switch's managers executed social interaction, gift-giving, and building trust, the results indicated that the managers did not implement these strategies in line with the suggested unique practices. *Lastly*, in addition to communication styles difference, unclearness the difference between *building and cultivating B2G guanxi* and *communication* with the government officials and *language* were explored through empirical research as the other potential challenges to the development of close guanxi from western firm's perspective. It should be noting that the *dissimilar results from the empirical study in a way supports*

the theoretical framework as the case company failed to build and cultivate a true, healthy, and long-lasting B2G guanxi in Lu'an city. In other words, if its managers had consciously set up a set of contacts at different level of the governments, carefully hid their instrumental objectives in building B2G guanxi, frequently hold informal discussions and noticed the unique practices of the cultivating strategies, fluently spoke Chinese language, and cleared the difference between communication with the officials and having B2G guanxi with the officials, the case company's B2G guanxi would have improved. Bearing in mind the dissimilarities between the empirical results and the theories, figure 14 illustrates a modified theoretical framework.

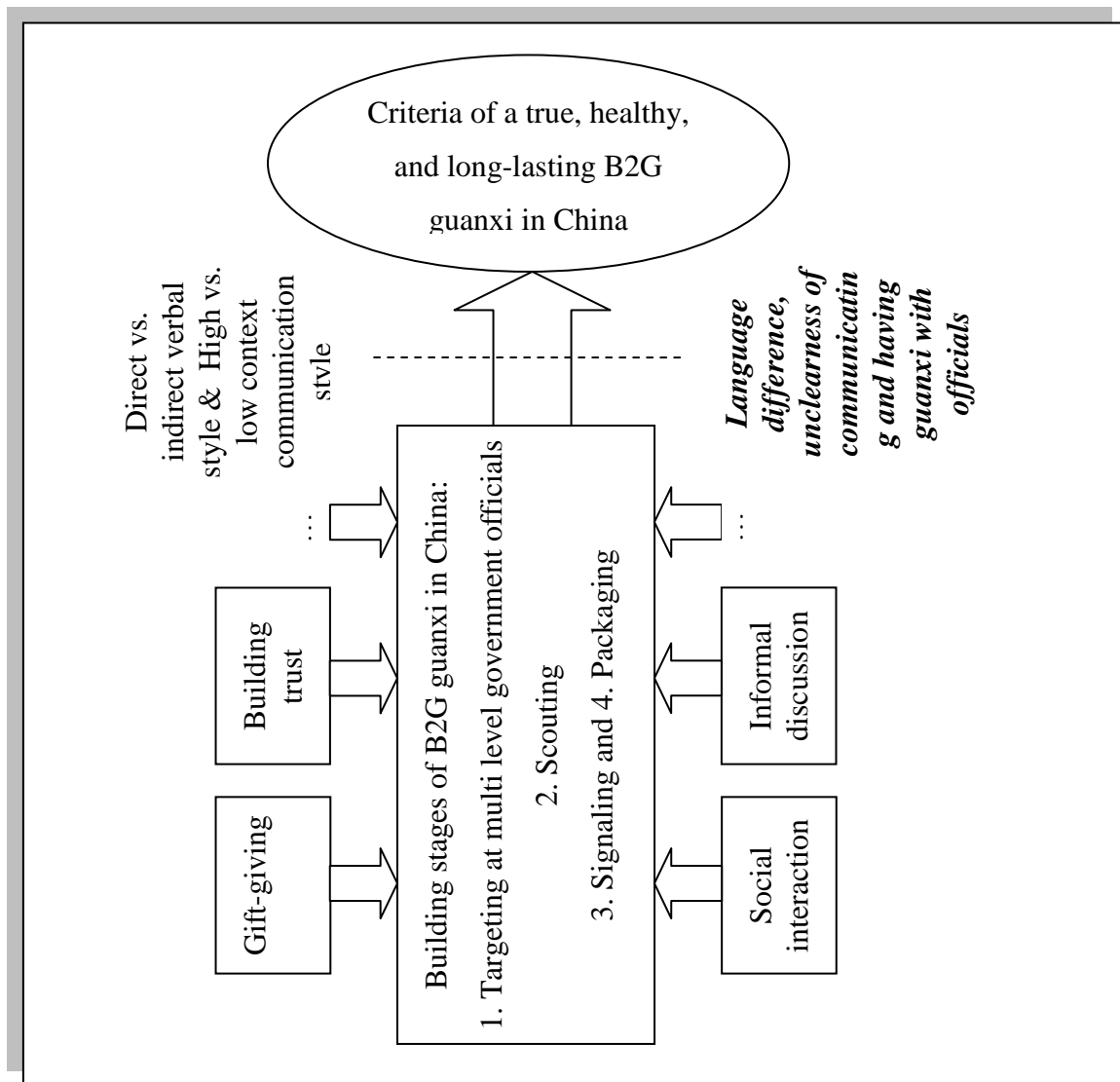


Figure 14. Modified theoretical framework

The modified theoretical framework is formulated on the basis of the framework which was presented in chapter 4.3. The italic and bold text in figure 14 are the modifications, which indicate that language and unclearness of communicating and having guanxi with officials are the additional potential challenges to western firms to build and cultivate their B2G guanxi in China. The other parts of the framework have not significantly modified because the dissimilarities between the empirical results and the theoretical framework contributed to the failure of the case company to build and cultivate its B2G guanxi in China.

In the next, managerial implications are presented. **Firstly** and perhaps the most important, *language* as a barrier for building and cultivating a deep level of B2G guanxi was rarely noticed in the existing literature. In the present study, all the three interviewees mentioned language is one of the main challenges for The Switch to build and cultivate B2G guanxi in China. Indeed, the four main cultivating strategies play a salient role in developing ganqing or affection between two unrelated persons. However, common language is a prerequisite for smoothly carrying out those cultivating strategies. For example, there are many personal issues such as *families* and *hobbies* which can be discussed between people through holding informal discussions, however, The Vice President of The Switch commented that “*if you do not know the language, you do not even know what they spoke*”. Perhaps, language was the biggest barrier for The Switch’s managers to discuss such personal issues. Thus, foreign managers who desire to develop a close guanxi with the Chinese government officials are suggested to learn Chinese language.

Secondly, as building and cultivating all kind of guanxi, including B2G guanxi, is *time consumuuuuing* (Fock & Woo 1998: 36; Yau et al. 2000: 17), western businessmen uuuuuuuu should bring their patience. Chinese people are likely to spend a lengthy time iiii to judge the trustworthiness of a stranger. Reciprocity is suggested to do at a later and appropriate time. It is not an easy task for westerners to be bounded with the officials. Empathy, the ability to understand the other person, is culturally related and therefore has to be learnt. Thus, executing the four cultivating strategies in a short time (three or four times in the case), western businessmen are not likely to achieve bonding,

reciprocity, trust, and empathy, which are the criteria for a true, healthy, and long-lasting guanxi.

Thirdly, informal discussions play a salient role in improving B2G guanxi between the western managers and the identified Chinese government officials. Imitable guanxi requires guanxi seekers to get personal with the officials (Yau et al. 2000). This is the meaning of an old Chinese saying: “when making a friend, make it heart-to-heart”. It is the purpose of informal discussions to help guanxi seekers to get personal with the officials. During informal discussion, guanxi seekers and the target officials can share personal issues such as personal secrets and inner feelings (Yau et al. 2000). Perhaps, western businessmen are uncomfortable to share their personal concerns with the officials, however, they must understand that once they are in China they have to proactively adjust themselves so as to better deal with the unique Chinese social codes and norms.

Fourthly, perhaps, western managers have realized the importance of holding appropriate dinners, giving some gifts, and building trust in dealing with the government officials. This was largely because they do the same things in their home country. However, these cultivating strategies have its unique practices in China. Ignore the unique practices would not improve the relationships between western managers and the Chinese government officials. For example, western managers are suggested to practice various social-oriented activities such as hosting appropriate dinner, and inviting the officials to birthday banquets and celebrations of marriage. Gift-giving has to do on important holidays and special occasions. Western managers should spend more time to build their trust though showing their sincerity since Chinese prefer to spend a lengthy time to judge an out-group member’s trustworthiness.

Lastly but not the least, guanxi is a product of China’s long history and unique culture. Thus, guanxi and Chinese culture are interwoven. Chinese culture should be learnt so as to tackle difficulties in building and cultivating B2G guanxi in China.

The author will close this paper with a discussion of the limitations and potential future research. Firstly, single case study is one of the limitations and therefore a multiple cases study design is recommended to strengthen the findings of the research. Secondly, a quantitative research is suggested to confirm the results since numerical analysis was not used in this paper. Thirdly, another limitation of the study is that the interviewees were mainly selected from the case company, thus, further data may be needed from Chinese government officials so as to explore how they perceive their B2G guanxi with the case company. Last but not the least, due to the role and importance of guanxi has been changing, new evidence is needed to seek out the relationship between having B2G guanxi and organizational performance.

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APPENDIX 1. A glossary of guanxi related Chinese terms

Chinese	English
<i>Guanxi Wang</i>	An entire network of an individual
<i>Bao</i>	Reciprocity paybacks
<i>Ganqing</i>	Affection
<i>Jia-ren</i>	Family and extended family members
<i>Mianzi</i>	Face or reputation
<i>Renqing</i>	Favor
<i>Shu-ren</i>	Familiar persons such as neighbors, (former) colleagues, and (former) classmates
<i>Sheng-ren</i>	Strangers
<i>Wulun</i>	Five Cardinal Relationships
<i>Xin</i>	Trust

APPENDIX 2. Interview guided questionnaire I.

Company name and address

Interviewee's name and title

Date of interview

Section A. General backgrounds of the interviewee and the case company

1. Year of establishment
2. Industry in which main activities concentrated
3. When did your company enter into Chinese market
4. Can you shortly describe the motivates of your company enter into China
5. What is the form of the company's operation in China
6. How is your company's situation in China now

Section B. Building and cultivating B2G guanxi in China

1. What have you perceived as the unique aspects of doing business in China?
2. Do you have some sort of relationships in China?
3. Do you have some level of relationships with the government?
4. What level of government officials in Lu'an city the company attempted to have some relationships?
5. Do you agree that this relationships with the government are at personal level?
6. Can you generally describe how did you set up the initial contacts with the officials in Lu'an city?
7. Can you generally describe how did you try to improve the relationships between you and the officials in Lu'an city?
8. Did you and you company tried to build trust with the government officials? If you did, how did you build the trust?
9. What did you discuss with the officials during the meetings?
10. To what extent do you think your company was benefited from having the relationships with the officials in Lu'an city?

Section C. Potential challenges

Have you found any mentionable difficulties in building and cultivating the relationships between you and the officials?

End up questions

Do you have any general comments relating to building and cultivating business to government guanxi in China?

APPENDIX 3. Interview guided questionnaire II.

Company name and address

Interviewee's name and title

Date of interview

Section A. General backgrounds of the interviewee and the case company

1. Year of establishment
2. Industry in which main activities concentrated
3. When did your company enter into Chinese market
4. Can you shortly describe the motives of your company enter into China
5. What is the form of the company's operation in China
6. What was your contribution to the establishment of China's Lu'an unit

Section B. Building B2G guanxi in China

1. Did the company have any intentions to build some relationships with the Chinese government officials in Lu'an city?
2. How long the company attempted to have these relationships?
3. What level of government officials in Lu'an city the company attempted to have some relationships?
4. How many officials in Lu'an city the company tried to build some relationship?
5. Did you know these officials before?
 - a) If yes, how did you know them?
 - b) If no, how did you initially establish the first contacts with them?
6. (Ask question 6 only if a third party is mentioned by interviewee)

Did you know the third party before?

 - a) If yes, how did you know the third party?
 - b) If no, how did you find out the third party?
7. Did the company ask for some favors from those officials immediately after establishing the first contacts with them? (If not, please specify when)

Section C. Cultivating B2G guanxi in China

1. After establishing initial contacts, did you and your company tried to increase interactions with the Chinese government officials? Please specify when and how
2. Did you hold dinner with those officials in Lu'an city?
3. Did you do gift-giving to the government officials?
 - a) If yes, on what occasions, what kind of gifts and what are the value?
 - b) If no, what was the reason of this?
4. What were your and your company's intentions to do gift-giving?
5. Did the officials know you at a deeper level?
6. Did you and you company tried to build trust with the government officials? If you did, how did you build the trust?
7. Did you and your company do something for the officials as a return?
(If Yes, when and what did you do and on what occasions)

Section D. Potential challenges

Have you found any mentionable difficulties in building and cultivating the relationships between you and the officials?

End up questions

Do you have any general comments relating to building and cultivating business to government guanxi in China?